

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
BANKRUPTCY DIVISION

IN RE:	§ CASE NO. 22-90341-11
	§ JOINTLY ADMINISTERED
	§ HOUSTON, TEXAS
CORE SCIENTIFIC, INC.,	§ THURSDAY,
	§ DECEMBER 22, 2022
DEBTOR.	§ 9:15 A.M. TO 11:34 A.M.

FIRST DAY HEARINGS (VIA ZOOM)

BEFORE THE HONORABLE DAVID R. JONES
UNITED STATES BANKRUPTCY JUDGE

APPEARANCES:	SEE NEXT PAGE
COURTROOM DEPUTY:	ALBERT ALONZO

(Recorded via CourtSpeak; Not all callers could be heard
clearly.)

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(Please also see Electronic Appearances.)

1 HOUSTON, TEXAS; THURSDAY, DECEMBER 22, 2022; 9:15 A.M.

2 THE COURT: Okay. Initially, good morning,
3 everyone. This is Judge Jones. The time is 9:15 Central.
4 Today is December 22, 2022. This is the docket for Houston,
5 Texas.

6 On the 9:15 docket, we have First Day Hearings on
7 the jointly administered cases under Case No. 22-90341, Core
8 Scientific, Inc.

9 Folks, please don't forget to make your electronic
10 appearance today. If it's been awhile, or perhaps even a
11 first time, that's a quick trip to my website, a couple of
12 mouse clicks. It'll take you less than 20 seconds to
13 accomplish that, and you can do that at any time prior to the
14 conclusion of this morning's hearing.

15 First time that you speak, and you only need to do
16 it the first time, but if you would, please state your name
17 and who you represent. It really does give the court reporter
18 a good point of reference in the event that a transcript
19 request is made.

20 And finally, we are recording this morning using
21 CourtSpeak. We'll have the audio up on the docket, available
22 for your download shortly after the conclusion of the hearing.
23 Let me also say I know a number of pro hacs have been filed.

24 It's my belief I got them all. If I missed one, I
25 will get it. Just don't need to worry. If you have filed a

1 pro hac, and I haven't signed it, you are certainly free to
2 appear and encouraged to appear this morning, and I will come
3 back behind, and again, if I missed one, I will pick that up.

4 All right. Mr. Perez, good morning. Are you
5 starting us off?

6 MR. PEREZ: Yes, good morning, Your Honor. Thank
7 you, first of all, thank you for hearing us on short notice.
8 Also want to thank the Court staff, Mr. Alonzo, for getting
9 this all together and getting it assigned, you know, right up
10 to the holiday season.

11 And we've been working very, very cooperatively with
12 the U.S. Trustee. Want to thank them for reaching out in
13 their efforts, and their frankly very, very quick turnaround
14 with respect to all of our motions.

15 With that, Your Honor, I was handling
16 (indiscernible) administration which I think has been entered.
17 So I will have to go on to Mr. Schrock who will be kind of
18 leading us today.

19 In addition to Mr. Schrock, and he'll introduce the
20 company, we have Ms. Ronit Berkovich, one of our partners, and
21 then several of our other colleagues. Mr. Ferris, who you
22 know, will be handling some of the First Day Motions, but with
23 that, Your Honor, I will turn this over to Mr. Schrock for his
24 comments.

25 THE COURT: Terrific. Thank you.

1 Mr. Schrock, good morning.

2 MR. SCHROCK: Good morning, Your Honor. Can you
3 hear me okay?

4 THE COURT: Loud and clear. I was going to say, it
5 looks like someone got a new pair of AirPods for Christmas, or
6 either we've stolen the young ones. I'm just obviously
7 joking. No, you are completely clear. Thank you.

8 MR. SCHROCK: Excellent. Thanks very much, Your
9 Honor.

10 Just echoing Mr. Perez' comments, thanks very much
11 for hearing us on short notice, and thanks very much to office
12 of the United States Trustee.

13 I do think we're down to, I think, one issue just
14 relating to the Chapter 7 challenge period between our
15 proposed Debtor-in-Possession lenders and the office of the
16 United States Trustee will make sure we're corrected on that.

17 Thanks for the Court staff.

18 And we're very pleased to be before you today, Your
19 Honor, having sought Chapter 11 protection in the early
20 morning hours yesterday. Your Honor, joining me here in the
21 courtroom today, in addition to the other team members that we
22 had mentioned for Weil, we also have my litigation partners,
23 David Lender and Todd Becker Reeves, to the extent there are
24 any contested matters.

25 They'll be handling the witness work. And we do

1 have our lead investment banker, and I believe he's on camera,
2 John Singh, from TJC Partners --

3 THE COURT: Know him well.

4 MR. SCHROCK: I think he submitted it.

5 THE COURT: And as I said, know him -- I know him
6 well. I know his skill set.

7 Good morning, Mr. Singh.

8 He hadn't hit five, star, but I read his lips.

9 MR. SINGH: Thank you, Your Honor.

10 THE COURT: Got it.

11 MR. SCHROCK: Yeah, John, don't forget to hit five,
12 star, so you can hear me.

13 We also have Mr. Michael Brose (phonetic). He's the
14 gentleman with the Core Scientific background. He is our
15 first day declarant, and he is also in the courtroom with you
16 today.

17 THE COURT: Thank you. Good morning, Mr. Brose.

18 MR. SCHROCK: Your Honor, it's been a tough few days
19 here for the team to get here on the eve of the holidays, and
20 certainly Christmas for many of us. What I'd like to do is we
21 did file a first day presentation.

22 And I think it'll be helpful just to kind of set the
23 stage to take you and the parties-in-interest through it
24 without -- just to say it, without -- it's a presentation and
25 everybody can have their right to reserve, but we wanted at

1 least give an opportunity to present, you know, how we see the
2 case is coming into it.

3 THE COURT: Certainly. Let me ask this before we
4 get started.

5 Mr. Schrock, who is responsible for the Declaration
6 filed on behalf of Mr. Brose at Docket No. 5? Was there
7 someone who was in charge of that?

8 MR. SCHROCK: Yes, Your Honor. You know, I think
9 that certainly Mr. Crabtree, you know, Ms. Berkovich, myself
10 and Mr. Fink, you know, those are the parties that primarily
11 were responsible.

12 THE COURT: So you think I'm going to criticize, but
13 I wasn't. What I wanted to tell you, you know, obviously I've
14 read, you know, hundreds of those things. And normally I come
15 to one of these situations with at least some amount of
16 personal experience.

17 And you know, I work my way through it, and you
18 know, it's -- sometime, most of the time they are of limited
19 help. This was simply the best piece of writing that I have
20 ever read.

21 I spent about an hour with it, and again, you know,
22 crypto is something when it started coming, I read everything
23 I can find. I talked to everybody that will talk to me about
24 it, and I often end up with more questions than I started with
25 after I've completed that exercise.

1 And I will just tell you, not that this answered all
2 of my questions. I would -- you know, whoever's the most
3 knowledgeable, I would love to take them out after the case is
4 over, and you know, happy hour on me because I have all sorts
5 of questions I would love to ask.

6 But it is simply the most persuasive piece of
7 writing I have ever read. I've actually sent parts of it to
8 other lawyers, a couple of my colleagues that just says you
9 really ought to read this.

10 So whoever it was that was responsible or who led
11 the charge, it's just a nice piece of work. I wish that
12 everything I read was just as nicely done.

13 So thank you.

14 MR. SCHROCK: Very good. It's our pleasure, Your
15 Honor. And I also failed to mention that, you know, our
16 associate, Destiny Reyes, you know, also played, you know,
17 frankly a very leading role in that, and I should have called
18 her out. And of course, I was hedging by inserting my own
19 name in that, Your Honor. But --

20 THE COURT: Well, I got it. You were protecting
21 your team. That's why I could tell. I appreciated you doing
22 that.

23 MR. SCHROCK: Exactly.

24 THE COURT: I got it. So let me -- who do I need --

25 MR. SCHROCK: Okay.

1 THE COURT: -- to give presentation control to?

2 MR. SCHROCK: I believe that would be Austin
3 Crabtree should be getting that control, Your Honor.

4 THE COURT: Okay. Hold on a second.

5 (Pause in the proceedings.)

6 THE COURT: All right. Mr. Crabtree --

7 MR. SCHROCK: Great.

8 THE COURT: -- should have control.

9 MR. SCHROCK: Okay. Great. All right. Looks like
10 we're getting the full screen mode. Let's go ahead and flip
11 the page, please, Austin, and the next page.

12 So Your Honor, just a little bit of background about
13 the company.

14 I know a lot of this is covered in the First Day
15 Declaration. The company was founded in 2017, and the
16 company's revenue stream was from bitcoin that it mined from
17 film account and for variety hosting services to third party
18 customers.

19 They -- you know, since its inception, the Debtors
20 have built a considerable asset base of approximately 180,000
21 miners, or computers. They've gained market trust.

22 I believe they're one of the, if not the leading
23 miner here in the United States. And this company unlike, you
24 know, I would say, you know, some of the companies that we
25 have the pleasure of working with, it is cashflow positive

1 before debt service.

2 It mines bitcoin. It converts that bitcoin into
3 cash. And it has been, you know, in the past, in the very
4 recent past very significantly cashflow positive. It's just
5 had a cascading series of events that have hit it over the
6 very recent past.

7 Its most profitable business segment comes from
8 mining bitcoin with machines that it owns that they're self-
9 mining. It also has posting for many other companies and it
10 sold wholesale computers. The miners take care of them and
11 will be provided a fixed case.

12 We have eight fully operational data centers, all
13 located in the U.S. Those are in Texas, Georgia, Kentucky,
14 North Carolina and North Dakota.

15 We've got a couple of large transactions that were
16 undertaken prior to commencing these cases, including
17 acquiring one of our largest customers, Block Cat. And that's
18 significantly increased the number of miners.

19 We also entered into a spec merger during which the
20 company merged with a company and changed its name to Core
21 Scientific. And after going public at the start of 2022, we
22 experienced tremendous growth.

23 You know, market conditions and the price of
24 bitcoin, the price of power and many other things went to the
25 company to refocus our efforts in resource and self-mining.

1 And we've had some challenges over, you know, the third and
2 fourth quarters that we will take through as well.

3 Next page, please.

4 So for me personally, Your Honor, this was a helpful
5 page, not being, you know, fully factual in, you know, what it
6 is that bitcoin mining is. And you know, admittedly when we
7 first started working with the company, I had to question like
8 how do you even mine, you know, a bitcoin? How does this
9 actually take place? This diagram, you know -- it simply is
10 a, you know, when people engage in the transaction, they, you
11 know, have to have that transaction validated.

12 It then is that block chain that's broadcast out to
13 all of the mining nodes across the world, and there's
14 effectively, you know, a competition to see who can complete
15 the algorithm quickly and the fastest in order to prove out
16 the transaction.

17 And those who are first, you know, in fact, you
18 know, get rewarded with a piece of bitcoin. So the ingenious
19 system is something that has become, you know, certainly part
20 of the contemporary lexicon, but it is something that also
21 happens to be an extremely profitable business.

22 So this business has, you know, a large amount of
23 significant, not just digital assets, but also real assets
24 that support bitcoin mining.

25 Next page, please.

1 You know, the competition and economic effect of
2 bitcoin mining really feed on itself to, you know, cause, you
3 know, some of the issues that we're dealing with.

4 You know, if you get more miners and they increase
5 competition, that increases the overall cost of bitcoin mine
6 including power that, you know, as we saw earlier this year,
7 power costs were a big part during the summer of, and into the
8 fall of what was causing these issues, and certainly the
9 cascading series of events relating to bitcoin.

10 But when you put all of these things in here, it's a
11 relatively simple business model that we've outlined in the
12 diagram below. And in addition, to control the supply of
13 bitcoin, the reward amount for solving the algorithm increases
14 over time as more bitcoins have been released into the market,
15 and there are fewer bitcoins left to be mined. It's a fixed
16 supply.

17 And the next big event in this industry -- not the
18 next one, but one of them is certainly there's another having
19 event where they have the number of bitcoins that are actually
20 available that's coming up certainly next year.

21 You know, determining, you know, what effect that's
22 going to have on the company, I think it depends on who you
23 talk to, but I think that, you know, many people believe that
24 you reduce the supply of bitcoin, the price of bitcoin should
25 theoretically increase.

1 And you know, certainly the believers and the
2 investors in this company, the creditors in this company, I
3 think a lot of people believe that listen, this is what's
4 going to happen.

5 Has that always happened in the past, not
6 necessarily, but this particular industry becomes so
7 sophisticated over such a quick period of time, that there's a
8 lot of thought and resources that certainly go into it, and
9 it's really quite amazing.

10 You know, this is a type of business that even just
11 a few years ago we wouldn't think exists, and now we have, you
12 know, couple hundred employees, you know, significant number
13 of investors here, and people that, you know, are really
14 behind this business.

15 We think this company and we are confident that
16 there's a tremendous amount of interest in reorganizing this
17 company. We will reorganize pursuant to Chapter 11, and we'll
18 take you through an RSA that, you know, is subject to a slot
19 for materiality that we believe could put us in the position
20 to even have even better offers and better opportunities for
21 our stakeholders.

22 Let's go ahead and flip the page then.

23 So this is an overview of our capital structure
24 which is relatively simple. You know, we have two convertible
25 notes tranches. They are secured.

1 There's some peculiar aspects of those private notes
2 that we don't have to get into today, but I'm sure will be
3 discussed further on in the future. We have a lot of miner
4 equipment financing, and a lot of those already -- you know,
5 we were extremely active with -- in the weeks leading up to,
6 and month leading up to these cases.

7 There's, you know, various interest rates behind
8 these. You know, it depends on -- you know, if you can
9 imagine with computers, it really depends on the type of
10 computer, how new they are, how fast they are as to how much
11 they're going to be worth.

12 We've been working with them cooperatively and in
13 fact, we were trying to negotiate a couple of different
14 transactions leading up to these cases. But there was a high
15 degree of dialogue with those parties.

16 We also have some non-miner financing, relatively
17 small amounts. There's an unsecured note owed to B. Riley,
18 and you know, there was certainly a lot of interaction with
19 Mr. Riley, and it was being -- leading up to these cases.

20 We have an unsecured loan, which is called the Novak
21 loan. And just to look -- give you an impression just how
22 profitable this company was in the recent past. The EBITDA
23 was 358 million, as of just six months ago. We think that,
24 you know, as of the recent past, and lowers, you know,
25 significantly.

1 We haven't announced public results so I don't want
2 to get too far in front of the company on that. But you know,
3 there's other significant liabilities that we are dealing
4 with. The company, due to its explosive growth, had very
5 significant construction commitments.

6 There's a number of parties out there, and so you
7 have to front load all of these costs, get the miners online
8 and then begin producing. Simply all of the cap fees series
9 of events that were facing the company, those constructions
10 got ahead of us.

11 We were in discussions with literally many, many
12 parties in the weeks leading up to these cases about certain
13 construction liens across various space, including our
14 noteholders. And then we have various litigation and disputed
15 liabilities that, you know, we were dealing with leading up to
16 these cases.

17 But this is really a classic case in my view, Your
18 Honor, where we simply -- we had so many things that the
19 company was dealing with so quickly that, you know, we had to
20 get the Court's protection in order to get this company -- to
21 save the company, to get it reorganized.

22 We tried so hard to get this done out of court, but
23 at the end of the day, the Special Committee that was formed
24 made a determination, one that we strongly agree with, that
25 was the right to do this was an open and transparent fashion,

1 you know, to get the company reorganized and to save the
2 company from what was really kind of a cascading series of
3 defaults that we'll talk a little bit about.

4 Okay, next page then.

5 So some of the key parties, Mr. Levitt, the chairman
6 of the board, Chief Executive Officer, someone of extremely
7 high integrity that we've been working with over the last few
8 months.

9 Chief Legal Officer and President, Todd Duchene,
10 senior vice president, the capital market and acquisitions,
11 Mr. Brodis (phonetic). The Special Committee was apprised of
12 three members, the independent members, Jarvis Hollingsworth,
13 Neil and Youngblood, two Texans, and Neil Goldman that has
14 also been committee member, I know, on a number of Chapter 11
15 cases.

16 The main players with whom we were negotiating pre-
17 petition include the ad hoc convertible noteholders, Paul
18 Hastings, lead by Mr. Hansen, and Moelis, Mr. Brock Klein, as
19 well as equipment lenders from a number of firms, some of
20 which have filed notices of appearance here today.

21 B. Riley is represented by Willkie Farr, and Celsius
22 is represented by Kirkland and Ellis. I think a number of
23 attorneys need to file notices of appearance. There is a very
24 significant dispute in our -- you know, leading up to these
25 cases, over the interpretation of that contract.

1 Celsius is obviously is in its own bankruptcy case
2 in front of Judge Glenn, in the Southern District of New York.
3 And I'm sure, you know -- listen, we're looking forward to
4 engaging with them as we move forward.

5 I think it's fair to say we've had our differences
6 in the recent past, but we are -- we're going to look forward
7 and see if we can find a path forward that obviously minimizes
8 expense.

9 But I just wanted, you know, to give a quick shout
10 out. I really do thank Mr. Hansen, the Moelis team, for, you
11 know, working with us over the last several days. It's
12 been last several weeks.

13 You know, they've been very good partners. They
14 have been flexible. They've worked with the company in, you
15 know -- under very difficult circumstances. And you know, we
16 do really appreciate that on behalf of the company or involved
17 in the industry.

18 Let's go ahead and flip it, please.

19 So the circumstances in just a little bit more about
20 this. The climb in the price of bitcoin, the increase in
21 power costs, the Celsius nonpayment of related litigation, you
22 know, why I first became involved, you know, when this dispute
23 was really coming into full view during October.

24 And you know, this was certainly -- it was a very
25 difficult situation. I think that Celsius felt very strongly,

1 or feels very strongly about their interpretation of the
2 contract.

3 I think it's less of an issue now because frankly,
4 if we, you know, can't work it out, then that means we
5 satisfactorily (indiscernible). You know, they understand
6 that we have powers of rejection, you know, related to a
7 hosting agreement.

8 I don't think that that's something they would
9 seriously contest. But that particular issue was causing the
10 company to lose, you know, millions of dollars per month
11 because of -- due to the power pass through issues that were
12 in dispute in that contract.

13 It fluctuates of course because the price of power
14 fluctuates. You know, the pass through can be a huge problem
15 one month is you're unhedged on power. It could be not as big
16 of a problem the next month.

17 The price of power's come down recently as we've
18 entered the colder season, but you know, could very well go up
19 as we end up in the truly cold weather season. The
20 significant construction costs which, you know, with myriad
21 counterparties is also a big problem.

22 And you know, the high equipment financing
23 indebtedness and in particular, amortization payments that we
24 were facing was also a huge problem for us. We had to stop
25 making those amortization payments in late October, with a lot

1 of miners.

2 We were working with them to try and find solutions,
3 but even as we were working on out of court solutions, we did
4 have one very significant liability accelerate in the days
5 leading up to these cases.

6 That caused a corresponding profit fall, even if we
7 sent -- you know, would cause profits to fall under the
8 convertible note, and you know, that was certainly a
9 significant factor for us as we considered, you know, what
10 path do we have to go down here to get the company protected?

11 And then I think just the litigation and other
12 debts, this is something where we have so many disputes out
13 there, we need the automatic stay, to be very frank. We need
14 the Court's protection to give the company a chance to be able
15 to look at these things, to move forward.

16 Okay, let's go ahead and flip, please.

17 So the only thing I want to mention here, Your
18 Honor, that we haven't talked about, and it's actually not on
19 the page. But we also were looking at, and had serious
20 interests in, you know, selling non-Core assets.

21 And I think that there are some assets in the way of
22 certain facilities that we may be able to actually generate
23 some very significant amounts. But I think there was not
24 time, the real estate and real property listed.

25 And I know that our estate counterparties when we

1 did execute the RSA in the early morning hours today, they
2 have consent rights under the terms of the DIP financing to
3 consent to those.

4 But we are confident there's real buyers out there
5 that certainly we could be working with as part of this
6 process. And unlike many of our, you know, other cases, you
7 know, we did have unencumbered assets coming into these cases.

8 The convertible noteholders had the means on, you
9 know, certain soft -- you know, personal property, UCC-1
10 protected property I would say in large part. But the real
11 property of the company is unencumbered largely.

12 And you know, it takes both of things obviously to
13 generate enterprise value for an operation like this. And the
14 equipment financiers have liens on the equipment. Convertible
15 noteholders have liens on certain assets, and then we had
16 unencumbered assets coming into it.

17 So there's going to be many interested parties that
18 I think have a vested interest in seeing this company
19 reorganize. I think people have strong views about where the
20 value lies related to this company.

21 But we're looking forward to continuing our pre-
22 petition negotiations, and you know, bringing these
23 negotiations to a conclusion and get this company reorganized,
24 you know, for the benefit of all stakeholders.

25 Scrolling, keep flipping, yes.

1 So we did sign a Restructure Support Agreement and
2 it does have, I believe, more than two-thirds of the
3 convertible note tranches that are supporting it.

4 We outlined the claims that are there. The DIP
5 financing, which is going to be -- we're going to turn to
6 next. I will leave that primarily to Ms. Berkovich to explain
7 to you exactly where we wind up on the terms which were
8 moving, and you know, being finalized right up until prior to
9 this hearing.

10 But it does provide for up to \$75 million in new
11 money. It contemplates a roll up, but only at the final DIP
12 hearing. The interest rates are set forth there and the fees
13 are also set forth as part of the DIP financing.

14 The bad (indiscernible) the company is desperately
15 in need of financing. We need to get the financing approved,
16 the company needs access to that capital because frankly the
17 company is -- you know, the cash balance is almost at zero.

18 Going -- flip, please.

19 Under the terms of Restructure Support Agreement,
20 there's exit term loans that we can entered into, you know.
21 If we're unable to obtain an exit term loan facility, we can
22 roll up the DIP facility into an exit facility.

23 There's mortgage exit financing that can't exceed
24 45 million, to secure the company's debt in the Texas data
25 center. And the company has the option to terminate this deal

1 if it's inconsistent with its fiduciary duty.

2 The fiduciary duty of, you know, termination of that
3 was something that is as it always is, is subject of a high
4 amount of negotiation. It was extremely important to the
5 company especially in light of how we had to commence these
6 cases.

7 But you know, I think we'll see if any other further
8 opportunities present themselves, and certainly we hope they
9 do.

10 There's various termination rights that are there
11 that are pretty standard.

12 No, let's go ahead, Austin, you can flip the page.

13 The convertible notes, here's the treatment,
14 97 percent that will be found and shared from a solution by
15 the DIP (indiscernible) to the new. There's paid back debt
16 for the miner equipment financing that the amounts are their
17 secured collateral value.

18 We do believe that many of the miners are
19 significantly under secured. I think that'll be something
20 that, you know, is going to be something we're going to have
21 to work on over the near term just to see how those claims are
22 going to be treated.

23 We'd like to reinstate the non-equipment financing
24 to standard secured claim treatment. The general and secured
25 treatment is set forth there. There's a concept for

1 management incentive plan for up to 10 percent of new common
2 shares.

3 And then we do have the opportunity at various value
4 levels for significant warrant packages for value to be shared
5 with existing common stakeholders. That was also something
6 that we were fighting very strongly for, and we are looking
7 forward to see if we can try and improve those terms should
8 the situation (indiscernible).

9 Flip, please.

10 The milestones are set forth here. One thing is
11 certain about the milestones, I'm certain they'll change.
12 They're always going to be subject to what the Court believes,
13 and we'll have to see how the circumstances fold out, or
14 unfold in these cases.

15 Right now, we're contemplating a six-month case.
16 And you know, with any commodity based case, I think it's
17 worth just emphasizing, you know, a lot of the value of this
18 company is dependent on the price of bitcoin.

19 So I don't think anybody can predict at the moment,
20 at least nobody I know, of what the price of bitcoin is going
21 to be, you know, a month out, let alone six months out. So
22 we're going to have to be flexible moving forward.

23 We certainly hope the price of the bitcoin goes up
24 significantly, and it gives, you know, the company a chance to
25 distribute further value. But we'll frankly -- we're just

1 going to have to see how that goes as we move forward.

2 And then looks like -- flip to the next one.

3 So you know, what's our path forward? We want to
4 pursue the Restructure Support Agreement. I think that there
5 were any altered (indiscernible) if they present themselves.
6 We are also going to pursue the sale in cooperation with our
7 convertible noteholder partners the sales of non-Core assets.

8 We'll address (indiscernible) the stakeholder
9 disputes and related settlements, I think including the
10 Celsius and other parties. And frankly just proceed with a
11 Plan of Reorganization and emergence.

12 So it's a relatively straightforward path forward.
13 We'll see how easy it becomes, or how hard it becomes as we
14 move forward, but Your Honor, I'm happy to answer any
15 questions, or I'm prepared to try to move the evidence in, in
16 support of the relief we're seeking today.

17 THE COURT: Thank you, Mr. Schrock.

18 I do have just one question, and it just sort of --
19 as I look at the timing and I try to get a general feel for
20 things. This -- oh, I agree with you.

21 This all seems relatively straightforward with the
22 exception of, you know, dealing with the valuation issues with
23 the equipment financiers. Are you contemplating some sort of
24 expedited process, you want to try to wait?

25 I don't know how you'd do that, but are you trying

1 to wait till after confirmation? Did you have thoughts on
2 that, just as I try to work through the schedule because I
3 will tell you, the schedule doesn't bother me all.

4 My view is it's actually too long. But I also
5 understand that, you know, there are whole host of issues that
6 you're trying to plan. I got all of that. All I'm trying to
7 convey is I do think that the company's better off, the
8 employees are better off, the process is better off to the
9 extent that the company is going to survive, is that it get
10 out sooner rather than later.

11 And so I'm telling you that I'm prepared for a
12 process that's quicker than the one that you outlined. It's
13 also not going to bother me if it turned out to be longer
14 because those are just things that happen.

15 But I am -- when I read through everything, the one
16 thing that stuck out at me is it is a big issue is how do you
17 deal with the valuation issue on the equipment financiers?

18 MR. SCHROCK: It's a great question, Your Honor. If
19 I could just give a couple points to that?

20 So one of the first issues that may present itself,
21 I think there would be (indiscernible) related to the
22 equipment financiers would -- you know, we contemplated ask
23 for a protection package for the equipment financiers that's
24 allowed under the terms of the DIP financing.

25 There's been a lot of reservations of rights that

1 have already been filed, and I think that between the interim
2 Order and the Final Order, there's going to have to be some
3 discussions with those equipment financiers to see exactly
4 what are we going to do, is there going to be a change in
5 terms, are we going to have a dispute?

6 You know, and it's unique to each equipment
7 financier, you know, what their -- you know, how they should
8 be treated. I also think that, you know, we're certainly
9 going to come to a point here, and we hope to work this out
10 consensually.

11 But I think depending on how those initial
12 negotiations or discussions go, and then moving forward with a
13 plan, you know, we are going to have to determine, you know,
14 the value of their collateral in conjunction with the plan
15 process.

16 I don't have a straight answer for you, Your Honor,
17 about when precisely we would do that, but I, you know, think
18 that there's so many parties, you know, and in this world that
19 are interested in the company including potentially some of
20 those equipment financiers.

21 You know, it's an ecosystem that depends upon one
22 another. You know, for all I know, some of those parties may
23 be interested in investing in the company in one form or
24 another. And I think with Celsius, with whom, you know, we're
25 hosting a significant number of companies.

1 They are also, I should note, one of our largest
2 convertible noteholders, and they, you know, certainly
3 expressed an interest in trying to have discussions with us
4 related to what's going to happen to their machines, and you
5 know, are we going to continue hosting, if so, on what terms,
6 how is all that going to work out?

7 But I think, Your Honor, hopefully as between now
8 and the second day hearing, we can lay out in conjunction with
9 our RSA parties a process for you that will bring it forward
10 in an organized fashion, you know, to determine the value of
11 that collateral.

12 Right now, we think it's significantly under
13 secured. I'm sure they have different views about that, and
14 I'd probably leave it there.

15 THE COURT: Fair enough. All I was really trying to
16 convey, as the parties start to talk, and I do realize that
17 each particular party may be a distinct case. I am -- you
18 know, this is not something that is going to be foreign to me.

19 It's relatively easy for me, from my point of view.
20 And to the extent that perhaps Rule 7001 implicates the
21 outcome and the parties are willing to proceed under 9014, you
22 know, happy to do that.

23 I am more than happy to create an expedited process
24 that reserves the rights of everybody, but to get an answer to
25 some of this relatively quickly because I do think that it's

1 important, and I do think that it drives perhaps at least part
2 of this.

3 I may be completely wrong, but happy to entertain
4 all of that. It's not going to bother me, surprise me, and I
5 look forward to you all continuing to talk because I do agree
6 there probably do need to be some more discussions.

7 I just simply was trying to convey to everyone, I am
8 going to be incredibly flexible in terms of coming up with a
9 process that gets some of those answers because I don't think
10 we can really get -- I don't think we can know what the end
11 looks like until we get some of those issues resolved. That's
12 all I was trying to convey.

13 And with respect to the Celsius issue, again happy
14 to drive that on an expedited schedule. Obviously I want to
15 be -- and I don't follow Celsius, nor do I talk to Judge
16 Glenn, not for any reason, other than I just won't talk to
17 him.

18 I obviously don't want to step down on Judge Glenn's
19 process, but to the extent that, you know, that end is
20 covered, and the parties want to have an expedited process to
21 try and move that issue forward.

22 I don't really see that as important as I do the
23 equipment financiers. I obviously may be wrong, but I'm going
24 to be open there again so long as you respect Judge Glenn's
25 process in his case.

1 MR. SCHROCK: No, heard loud and clear, Your Honor.

2 And you know, on Celsius, we were actually going to
3 go to trial over an equipment interpretation issue and the
4 Celsius Chapter 11. We agreed, you know, consensually with
5 the team, that listen, looks put it off, just in light of
6 everything that's going on with Core Scientific.

7 You know, I'm not sure if that's really going to be
8 necessary to have that trial at this point, just given that,
9 you know, there -- it's one thing to interpret the contract.
10 I think it's another thing if we can't work it out to just --
11 to deal with rejection issues.

12 And so I think that we're still talking. We have a
13 good relationship with the team and we'll certainly move
14 forward, you know, in an efficient manner as possible, but I
15 think that, you know, there should be an opportunity for
16 people to speak.

17 THE COURT: We could have a joint hearing with Jones
18 and Glenn. That would be exciting for everybody.

19 (Laughter.)

20 MR. SCHROCK: Yes, it would. Yes, it would, Judge.
21 We'll try and avoid that, but I will -- that would be
22 exciting.

23 THE COURT: No, I was just having a little fun with
24 you.

25 MR. SCHROCK: So --

1 THE COURT: Let's -- before we go to Ms. Berkovich,
2 let me just take a pause and see does anyone else want to make
3 what I'll just take as opening comments, or just a statement
4 of where you see the case going, or particular problems you
5 want to highlight for me?

6 And again, if haven't already done so --

7 MR. HANSEN: Yes, Your Honor.

8 THE COURT: Mr. Hansen, I'm happy to start with you.
9 I don't think I've seen you since the big event.
10 Congratulations to you and your team.

11 MR. HANSEN: Thank you very much, Your Honor. I do
12 appreciate that. It's nice to see you again. I just wanted
13 to take a minute and introduce you to who we are in this one.
14 So first, I also want to say thank you to Wild (indiscernible)
15 teams.

16 We've all been really hard at work over the last
17 couple of weeks as Mr. Schrock pointed out to bring the case
18 to this point. As you know, these things are at least quite
19 chaotic. There's a lot of people in the hearing today who
20 haven't slept very much, not only last night, but for the past
21 couple of nights.

22 And so I just again wanted to convey our gratitude
23 to everybody around the teams. It's been an all hands effort.
24 I was going to try to take credit for the First Day
25 Declaration, but you know, you beat me to it.

1 So Your Honor, I'd also just want to introduce
2 quickly who we are in the case. So the convertible notes were
3 issued by the company, obviously pre-petition in connection
4 with the build out of their platform.

5 The holders of those notes, and we represent more
6 than 75 percent of the two tranches of those notes, together
7 more than 80 percent of the August tranche, and more than
8 58 percent of the (indiscernible) tranche. And we have signed
9 up to the RSA as Mr. Schrock pointed out. So those two
10 tranches of notes are working together. They've hired us as
11 their counsel, and (indiscernible) as their investment banker.

12 And I want -- it's not the usual case where we show
13 up and we say that 100 percent of the holders of these notes
14 were the original purchasers of these notes, Your Honor. And
15 I think that's important for you to understand because the
16 speed in which the crypto currency world writ large, so to
17 speak, has been impacted over the course of the last couple of
18 quarters. It has resulted in an awful lot of tumult for these
19 businesses. And so people believed in this business, they
20 invested in this business as original holders, and they still
21 hold those notes.

22 And so it's not been fun for them to see where the
23 price of the coin is right now, and to see what happened with
24 respect to the company. And so for them to come together and
25 not only support this restructuring, but also be prepared to

1 write a money check into it from a DIP lending perspective
2 because they're also serving in the capacity of DIP lenders,
3 is a real testament to their desire to stick to this process,
4 and their belief in the future of the company.

5 However, they also know that this company has
6 sustained an extraordinarily volatile larger universe. You
7 only need to look at the price of bitcoin and where it's been
8 and where it is now.

9 There's lots of hopeful people that hope it'll go
10 back in the other direction. But we aren't in the future,
11 we're in the now. And I think for our clients, you know, when
12 you look at the terms of the DIP, or we look at the terms of
13 the restructuring in total, those are very fair terms, given
14 the volatility that's associated with the marketplace and what
15 this company plays.

16 And so that's really all I wanted to say, Your
17 Honor. And I also wanted to introduce my partners who are
18 with me as well. You'll see Mr. Collett (phonetic). He is in
19 one of boxes over here on my computer.

20 So (indiscernible) Collett over there. And you'll
21 see my other partner, Cheyenne (indiscernible) who is in the
22 other box. They'll probably be doing most of the talking at
23 the hearing today which I know you can't believe. But I will
24 probably cede the mic to them for the bulk of it.

25 So nice to see you again, Your Honor. Thank you.

1 THE COURT: Got it. Thank you, and good morning to
2 the team.

3 Anyone else? Ms. Hardy, I saw you pop on, and I'll
4 ask you, did you have any opening comments that you wanted to
5 make? And you --

6 MS. HARDY: Yes, Your Honor, very quickly. Jennifer
7 Hardy of Willkie Farr, on behalf of B. Riley, financed secured
8 noteholder in these cases.

9 Your Honor, I'd like wholly to reserve all rights
10 with respect to the final DIP here.

11 There are aspects of the DIP which are problematic,
12 particularly as an unsecured creditor, the one (indiscernible)
13 the roll up. You know, as Mr. Schrock mentioned in his
14 opening presentation, there are substantial unencumbered
15 assets here.

16 And those, that value would be swallowed by
17 essentially 100 percent fee on the DIP borrowing. But you
18 know, it's that, and other issues are issues for the final
19 hearing, and would certainly be subject to close scrutiny by
20 the Creditors Committee. We're not formally objecting to
21 today's relief, but just want to put that reservation on the
22 Record.

23 THE COURT: Fair enough, Ms. Hardy, and I look
24 forward to B. Riley submitting a far better and cheaper DIP.

25 MS. HARDY: Thank you, Your Honor.

1 THE COURT: Anyone else?

2 I think I saw Mr. Silverman?

3 MR. SILVERMAN: That's right, Your Honor. This is
4 Matthew Silverman, Pryor Cashman. Good to see you this
5 morning, Your Honor. Good morning.

6 Your Honor, I represent (indiscernible). It is a
7 digital asset mining company and a customer of the Debtor,
8 third party hosting services.

9 We are involved in a pre-petition litigation with
10 the Debtor which is noted in the Debtor's First Day
11 Declaration. The suit involves claims in excess of
12 \$35 million tied to a deposit that was paid to the Debtor.

13 But curiously, the Debtor didn't include
14 (indiscernible) on their top 30 creditor list despite the fact
15 that (indiscernible) was brought in at I believe number two on
16 that list, haven't been included.

17 I raised this issue with Debtor's counsel prior to
18 the hearing. I haven't received a subsequent response on that
19 yet. That said, (indiscernible) doesn't object to any of the
20 relief sought today. I rise merely to introduce ourselves to
21 the Court, and note that we intend to be an active participant
22 in these cases.

23 THE COURT: And number one, thank you, and I assume
24 that if you hadn't already reached out to Mr. Ruff, he now
25 knows that you exist, and he's made a note about that. So I

1 appreciate you're doing that. All right.

2 MR. SILVERMAN: Thank you, sir.

3 THE COURT: Anyone else?

4 MR. FERRIS: Yes, Your Honor. Can you hear me?

5 THE COURT: Yes, sir. Go ahead, please.

6 MR. FERRIS: Good morning, Your Honor, Matt Ferris,
7 Haynes and Boone, on behalf of BlockFi. We are one of the
8 mining equipment lenders in this case, and this is mentioned
9 in the papers.

10 And as Your Honor may be aware, we are a leading
11 crypto currency lender that is subject to our own capital
12 lending proceeding that's currently pending in the district of
13 New Jersey.

14 And I mention that only because we are very much in
15 this industry and are a sophisticated party, and as reflected
16 in the First Day Declaration and other papers, Your Honor, we
17 currently have -- it's really two that collectively have a
18 principal balance of approximately \$54 million, which are
19 secured by approximately 14,500 of these AS IC mining
20 machines.

21 We are one of a member of this group. As Debtor's
22 noted, we are not all exactly in the same situation. But we
23 did very quickly mobilize as a group yesterday, and began to
24 try to coordinate efforts on identifying our concerns with
25 respect to the DIP and the first day rulings request, to make

1 this as efficient as a process as possible.

2 We've been engaging with the Debtors as a group, and
3 I think as a result of that, we've been able to narrow the
4 issues pretty substantially for today. I don't speak on
5 behalf of the other lenders, but I have been tapped with
6 because we are similarly situated, trying to coordinate our
7 comments so that we don't all have the stand up and rise and
8 repeat the same comments.

9 I will say, and I'll reserve my comments for the DIP
10 motion which -- that relates to the DIP motion, there are some
11 open issues with respect to the DIP motion. I did just want
12 to say for purposes of today's hearing though, you know, one
13 of the overarching concerns from our standpoint is -- well,
14 one of them of course is the issue that you bring, the
15 valuation issue, Your Honor.

16 And we do think that's going to be an important
17 issue, and we don't necessarily agree with the value that the
18 Debtors have put forth, but we will take that issue up in due
19 course.

20 A second overarching issue for us is adequate
21 protection, and there is a adequate protection package
22 provided in the DIP Order that is in the form of a
23 (indiscernible). So we could talk more about it when we get
24 into the DIP Order itself.

25 But the DIP budget does not have any provision for

1 payment of monetary adequate protection. We confirmed with
2 Debtor's counsel that they do not anticipate making monetary
3 adequate protection payments at this point.

4 And as reflected in the Debtor's papers, you know,
5 they are in crypto currency mining business. They intend to
6 use our equipment, collateral on a go-forward basis. The DIP
7 budget shows that they intend to fund a substantial portion of
8 this case with proceeds of, you know, the coins mined from
9 using that equipment collaterally.

10 And we believe, my client believes, Your Honor,
11 that there is a, you know, tangible and demonstrable
12 diminution of value that occurs every day that this equipment
13 is used. Obviously there's a diminution value that's related
14 to physical use.

15 My understanding is these -- this equipment
16 typically run 24 hours a day, and so there's just a natural
17 physical deterioration that happens. Of course, we're talking
18 about tech equipment so there's a performance obsolescence
19 aspect to this as well as new technology comes online.

20 There's also an issue of each piece of mining
21 equipment is housed in its proportional share of bitcoin as I
22 understand it, Your Honor. And as there's even more mining
23 equipment, or a reduction in the available bitcoin which you
24 heard Debtor's counsel reference a halving of the available
25 bitcoin to be mined in April, 2023, that obviously reduces the

1 proportionate value of each piece of mining equipment.

2 And then of course, there's more supply and demand
3 issue, and there's more of this equipment available for sale.
4 That has a corresponding effect on the value of the
5 collateral.

6 So all that's to say, Your Honor, we believe
7 adequate protection is an important issue. We believe that it
8 needs to be addressed. We don't feel that what has been
9 proposed in the interim DIP Order is a sufficient adequate
10 protection package.

11 We've already had some preliminary discussions with
12 the Debtors and the DIP lender's counsel about this issue.
13 We've all committed to work constructively on this, on a
14 go-forward basis, so we're not going to hold up the hearing
15 today on this issue.

16 But I do want to mention it because, you know,
17 obviously this is a time sensitive issue for us. The longer
18 this process goes, and we don't have resolution on adequate
19 protection, you know, the more we believe our position is
20 impaired, particularly given that the Debtor's position is
21 that we are significantly under collateralized already.

22 So you know, we will work diligently to try to
23 resolve these issues consensually over the coming days and
24 weeks. But to the extent we're not able to do that, we very
25 well may have to come back before your Court on a motion for

1 adequate protection.

2 With that, Your Honor, I'll reserve my comments on
3 the DIP, for the actual -- taking that up.

4 THE COURT: Certainly.

5 MR. FERRIS: Thank you.

6 THE COURT: So Mr. Ferris, so that you know, I mean
7 I am sensitive to these issues. I do understand the
8 degradation that occurs when electronic equipment is running.
9 I also understand the degradation of electronic equipment when
10 you turn the power off.

11 So I've got all of that, and the commitment that I
12 was trying to convey when -- obviously, you guys are all super
13 great at what you do. But when you hit loggerheads, don't
14 wait. I am ready to jump in and deal with this issue.

15 And I do understand the critical nature of the
16 issue, and that everybody needs to know where they stand. So
17 the commitment I was trying, when I was responding to
18 Mr. Schrock, the commitment that I'm making to him, to you, to
19 all those in the same situation, I am ready to go on that
20 issue because I understand how important it is.

21 And as soon -- if you all can agree on a process,
22 you know, I will do my best to accommodate. If I need to
23 clear time, and obviously the sooner you can let Mr. Alonzo
24 know that a problem is coming, the harder I can work to try to
25 create the time to try and resolve some of these issues.

1 So number one, I hear you loud and clear, and I'm
2 ready to go as soon as your -- and I'm sorry to say, your
3 clients, your group. And I got the position that you're in
4 today.

5 MR. FERRIS: Appreciate that. Thank you, Your
6 Honor.

7 THE COURT: All right. Thank you.

8 Is there anyone else?

9 MR. KOENIG: Good morning, Your Honor.

10 MR. TWOMEY: Good morning, Your Honor.

11 THE COURT: So I think I saw Mr. Koenig first.

12 Mr. Koenig, good morning.

13 MR. KOENIG: Good morning, Your Honor. Chris
14 Koenig, from Kirkland & Ellis on behalf of Celsius Mining,
15 LLC, and its affiliated Debtors and Debtors-in-Possession with
16 a case pending in Southern District of New York.

17 Prior to its bankruptcy filing, Celsius ran one of
18 the largest bitcoin currency platforms in the world. In
19 addition to that, retail customer base included in this,
20 Celsius also owns and operates one of the largest crypto
21 mining businesses in the United States through Celsius mining.

22 Celsius Mining is one of the largest customers of
23 the Core Debtors. We have over 37,000 rigs that are deployed
24 in four (indiscernible). They host our rates and mine bitcoin
25 for us.

1 Celsius has continued its mining operations
2 following our own Chapter 11 filing, in the ordinary course of
3 business. As Mr. Schrock, we're one of their largest
4 convertible noteholders as well.

5 We have \$54 million of the convert, which is about
6 10 percent of the issuance. And as Mr. Schrock previewed, we
7 have an ongoing contractual dispute before about provisions in
8 the contract (indiscernible) passed the power charges to us.

9 We filed a motion in our case, they filed a motion
10 for evidence (indiscernible) in our case. We mutually agreed
11 to abate that litigation to see if we could come to sort of
12 consensual resolution given, among other things, for financial
13 distress.

14 And of course, in light of Core's own Chapter 11
15 filing, I understand and appreciate Mr. Schrock's comments
16 that this litigation and disagreement about the contract may
17 be irrelevant given the powers that Core now has.

18 So to be clear, Celsius is focused on the long term
19 future of Core. We remain ready to engage with Core, and now
20 that they've filed for bankruptcy, see if there's a mutually
21 agreeable path forward.

22 We appreciate Mr. Schrock's comments about looking
23 to the future, and we feel exactly the same way. As one of
24 the largest noteholders, and customers, we're very invested
25 and continue to (indiscernible) Core. We've been a little bit

1 on the outside up to this point.

2 I think in part because of the multiple hats that we
3 wear as both a customer and a large noteholder. And obviously
4 we've had litigation with them recently. But from our
5 perspective, it's imperati-forward strategy here.

6 We look forward to engaging with the Core Debtors
7 more (indiscernible) the parties. We don't expect to object
8 to any of the interim relief today, but we just wanted to
9 (indiscernible) and introduce ourselves to the Court.

10 THE COURT: Well, Mr. Koenig, number one, I
11 appreciate you doing that, too. You've been in here before.
12 You know how I react when you're -- when you see something
13 that you think would make the process more efficient, or
14 achieve any sort of an advantage in terms of efficiency, I
15 encourage and expect you to speak up.

16 And I again want to be respectful of Judge Glenn's
17 case, but I again, you know I don't like form over substance.
18 I want to get to the heart of the matter. And you see an
19 issue that's, you know -- needs to be resolved, I'm here, and
20 I expect you to ask.

21 MR. KOENIG: Okay. Thank you, Your Honor. We
22 understand the procedure comment. Thank you.

23 THE COURT: Thank you. I think there was someone
24 else that was behind Mr. Koenig. Let me just -- anyone else?

25 MR. TWOMEY: Yes, Your Honor.

1 THE COURT: Mr. Twomey, I was hoping to hear from
2 you.

3 MR. TWOMEY: Yes, good morning, Judge Jones. I
4 appreciate it. Dennis Twomey with Sidley Austin, on behalf of
5 (indiscernible) LLC. We did file a short reservation of
6 rights shortly before the hearing.

7 And I'm guessing Your Honor has read that based on
8 some of the comments that Your Honor has already made, which
9 we really appreciate. As noted, Your Honor, we're not today
10 objecting to approval of the DIP on an interim basis.

11 But we do have an issue that you've already really
12 focused in on, and frankly Mr. Schrock and Mr. Ferris have,
13 too, so I won't go through it all again. And it's really the
14 point that we want to, you know, highlight is adequate
15 protection here.

16 And we appreciate your willingness to see that it is
17 an important issue, and it's somewhat urgent. You know, not
18 something obviously that we brought before Your Honor today,
19 but it is an urgent issue in the sense that the equipment does
20 tend to diminish in value, maybe more than some other
21 equipment that we often see in these types of cases.

22 So we really appreciate the comments that you've
23 already made. The only other point I wanted to just mention
24 for Your Honor, and you've already observed this, too, is
25 that, and as did Mr. Schrock, that not all of the equipment

1 lenders are in the same position.

2 We do believe that (indiscernible) just based on the
3 information, the First Day Declaration likely has, you know,
4 relatively speaking the best collateralized of the equipment
5 loans in the sense that it has more a fixed, relative to the
6 outstanding loan amounts than other parties.

7 And so, you know, that's the position we're in. We
8 have not quite as much although, you know, we're happy to do
9 whatever is most efficient for this process. We have not
10 really been speaking a whole lot with the other equipment
11 lenders at this point.

12 We certainly have pre-petition discussions with the
13 Weil team and appreciate those and look forward to continuing
14 that, you know, as we move forward here, and the issue that
15 is, you know, highest in our mind is the one that we've
16 already talked about and other parties have talked about here.

17 So we are going to be looking to see if we can get
18 those issues solved in the, you know, coming days and weeks so
19 that we can get the process moving quickly one way or another
20 on that.

21 And so the only other thing is just to note what
22 everyone else has already noted, we do have some other issues
23 potentially with the DIP financing which we're not going to
24 get into today in part because we still need to get some
25 answers to some of our questions.

1 And so we'll just reserve our rights on all of those
2 issues for the final hearing, and look forward to speaking
3 with the Weil team and others here in the coming days and
4 weeks.

5 Thank you, Your Honor.

6 THE COURT: Mr. Twomey, thank you. And again, I did
7 focus on your objection and the issues that are raised. I
8 want to take just a moment and -- because I don't think -- if
9 you have, I don't remember.

10 But I don't think you've appeared before me yet, and
11 I wanted to just tell you and all others that are in the same
12 boat, Albert Alonzo is my case manager. His cell phone and
13 email address are posted on my website.

14 He is your vehicle to tell me that you need court
15 time. I do not ever want my schedule to be the reason that
16 the case can't progress. So if you need something, and you
17 need scheduling, you know what not to talk to the Court staff
18 about. And I depend on that degree of professionalism. But
19 he's there, use him. The folks who do this on a regular basis
20 here, I think will tell you, he's probably the best part of my
21 court, me included.

22 And so just being able to reach out to him and tell
23 him what you need in terms of timing, or that something's
24 coming, or whatever it is, you know, he's there, and he's part
25 of the overall service.

1 MR. TWOMEY: Thank you, Your Honor.

2 I really appreciate that, and I have had some
3 dealings with him in the past, in connection with mediation
4 rather than hearings, but everything you have described is
5 absolutely consistent with my dealings with him in the past.
6 So greatly appreciate that, and his willingness to help here.

7 THE COURT: Of course, thank you.

8 Anyone else before we go to Ms. Berkovich?

9 MR. LOHAN: Yes, Your Honor. Good morning.

10 THE COURT: Morning.

11 MR. LOHAN: Brian Lohan, Arnold Porter, on behalf of
12 Barings.

13 I only raised to introduce myself in variance to the
14 Court. We are an equipment lender. We have attempted to kind
15 of streamline our comments with Mr. Ferris, for purposes of
16 keeping this morning's hearing efficient.

17 We've worked with Ms. Berkovich and Mr.
18 (indiscernible) last night late, and this morning. I think
19 we've resolved a lot of our issues. There may be a couple
20 open issues that require clarification when we get to the DIP
21 motion itself, regarding the, you know, DIP lenders not
22 priming the equipment lenders' names.

23 But we really tried to kind of reserve our rights
24 and kick to the final hearing the issues that can be dealt
25 with at the final hearing. But I just want to introduce

1 myself to the Court, and Mr. Ferris will likely address the
2 Court when it comes to the DIP motion for our case.

3 THE COURT: Thank you, Mr. Lohan.

4 And again, one, I appreciate you doing that, and
5 two, did I say anything this morning that surprised you or
6 caused you heartburn?

7 MR. LOHAN: No, Your Honor. I think the Record and
8 the discussion we've had in the past hour is very much
9 expected to this case, and how to proceed.

10 Thank you.

11 THE COURT: All right. Thank you.

12 Anyone else?

13 (No audible response.)

14 THE COURT: All right. Ms. Berkovich?

15 MR. SCHROCK: Your Honor, it's Mr. Schrock. Just
16 one last point I have before we turn it over. I think I was
17 supposed to move in the Declaration into evidence before we
18 turn it over to Ms. Berkovich. But I'm prepared to do that.

19 THE COURT: My apologies. Go ahead.

20 MR. SCHROCK: No. So Your Honor, (glitch in the
21 audio) --

22 THE COURT: Mr. Schrock, I think we lost you, and
23 for whatever reason it was very broken, and I'm not sure we
24 heard you.

25 MR. SCHROCK: Yeah, I (indiscernible) into evidence.

1 Say again, Your Honor?

2 THE COURT: So I was going -- I was trying to tell
3 you. Let me ask you. Are you connected, are you using like a
4 voice over internet to actually dial in?

5 MR. SCHROCK: I may have been, Your Honor. Can you
6 hear me now?

7 THE COURT: I can hear you now, yes, because your
8 video broke right with your sound so I was thinking it was the
9 same string. But I can hear you now. So I think what you
10 were doing, I think what I heard was you offered in Mr. Brose
11 Declaration at number five, and that's where we lost you.

12 And now we've really lost him.

13 MR. SCHROCK: Let somebody handle it. Sorry, go
14 ahead.

15 MR. PEREZ: All right. Your Honor, Alfredo Perez.
16 Your Honor, we would move in those two Declarations,
17 Mr. Brose, and Mr. Singh's Declaration that was filed a bit
18 earlier before the hearing.

19 THE COURT: All right. Thank you.

20 Now we've got Perez on evidence. We have reached
21 new highs. Let me --

22 MR. SCHROCK: Nobody (glitch in the audio)
23 Declaration though.

24 THE COURT: All right. So let me ask first. We'll
25 do them one by one. Any objection to the admission of

1 Mr. Brose Declaration found at docket entry number five?

2 (No response.)

3 THE COURT: All right. Then it's admitted. Any
4 party going to wish to cross-examine Mr. Brose?

5 (No response.)

6 THE COURT: All right. Anyone have -- object to the
7 Declaration of Mr. Singh found at Docket No. 98?

8 (No response.)

9 THE COURT: All right. It's admitted.

10 Anyone wish to cross examine Mr. Singh?

11 (No response.)

12 THE COURT: All right. Thank you. Then with that,
13 are we -- can we go to Ms. Berkovich? Ms. Berkovich, my
14 apologies.

15 MR. SCHROCK: Yes, Your Honor.

16 THE COURT: All right. Thank you.

17 Ms. Berkovich, whenever you're ready.

18 MS. BERKOVICH: Good morning, Your Honor, can you
19 hear me?

20 THE COURT: Loud and clear. Thank you.

21 MS. BERKOVICH: Okay. This is Ronit Berkovich from
22 Weil Gotshal & Manges, for the Debtors. Your Honor, the next
23 item on the Agenda is Docket No. 38, the Debtor's motion for
24 approval of DIP financing and use of cash collateral.

25 We separately, last night, filed this budget, Docket

1 No. 97, the DIP credit agreement at Docket No. 96, and just
2 before the hearing, at Docket No. 108, we filed the revised
3 DIP Order and a redlined of that DIP Order against the one
4 that was included with our motion.

5 For evidentiary support of the DIP motion, we filed
6 a Declaration of John Singh at Docket No. 36. This was just
7 admitted into evidence. And Your Honor, Mr. Singh, as
8 Mr. Schrock said, is in the virtual courtroom today and
9 available for cross-examination if needed.

10 We also, for evidentiary support, relying on the
11 Brose Declaration which was also admitted. So I would like to
12 start this morning by giving Your Honor a brief overview of
13 the DIP, and a brief summary of the Debtor's pre-petition DIP
14 marketing process.

15 Your Honor, the Debtors and the ad hoc group of
16 secured noteholders have been working around the clock to
17 finalize the terms of the RSA and the DIP. And as the
18 documents that we filed in the last 24 hours demonstrate, we
19 successfully reached a deal.

20 Everything is final. There's a few open items in
21 the credit agreements, but those can be resolved this morning.
22 In a nutshell, Your Honor, Debtors seek authority between
23 (indiscernible) finding Debtor-in-Possession financing, and
24 either gets principal amounts of new money, not to exceed
25 75 million (indiscernible) conditions of the DIP credit

1 agreement attached to the DIP motion, and the proposed DIP
2 Order.

3 At the interim hearing today, we're only seeking
4 authority to borrow up to 37.5 million of that 75 million. I
5 think it's important to note that of the 75 million, only
6 approximately 57 million is fully committed at this time.

7 That number's from the ad hoc group. However, the
8 DIP is going to be fully self-syndicated to other pre-petition
9 secured noteholders, and our hope is to have the full
10 75 million by the time of the final hearing.

11 Note there is also a (indiscernible) that will not
12 go into effect until the final hearing. We actually
13 negotiated very hard to push off all controversial terms in
14 the DIP Order until the Final Order.

15 And from the comments that we've heard this morning,
16 I think that we're generally successful. Just for the Record,
17 we very much welcome (indiscernible) Riley or anyone else
18 coming in to take out this DIP with a better DIP prior to the
19 Final Order. It's been negotiated very broad, (indiscernible)
20 carve out in the RSA to allow us to talk to other parties
21 about DIP, or a reduction transaction broadly speaking, on
22 better terms than we've been able to negotiate with our pre-
23 petition DIP or noteholders.

24 And we do have unencumbered assets available for
25 that financing, but of course, it's (indiscernible) come in,

1 we have to take out different issues today.

2 We're also seeking to use the pre-petition
3 third-party cash collateral and provide them adequate
4 protection as set forth in the proposed Order.

5 Your Honor, unless Your Honor has any questions
6 about that, I'll move into some of the key terms of the DIP.

7 THE COURT: So I don't --

8 MS. BERKOVICH: Our belief --

9 THE COURT: My apologies. No, I don't have any -- I
10 don't have any questions. I do have a couple of comments, but
11 I'm happy to wait until you finish going through the terms.

12 MS. BERKOVICH: Okay. I think that based on those
13 (indiscernible) of an Order, so I'll just very high level
14 touch on some of the (indiscernible) or the key terms. The
15 borrowers will be pursuant to an approved budget with
16 variances, very standard.

17 The maturity of this DIP is six months, and was
18 negotiate and be able to extend the DIP by an additional three
19 months by paying a two percent fee. Interest rate on the DIP
20 is 10 percent.

21 And very important, one major concession we got is
22 to be able to pay that interest in kind, which eliminates the
23 cash burden on the Debtor during the case.

24 Talking about the fees for a moment. There are
25 three categories of fees. These are also all paid in kind.

1 First, there's the new money loan commitment payment. This is
2 effectively an up (indiscernible) of two percent.

3 Further on the dates the new money loans are drawn
4 by the borrower. So (indiscernible) over, 37.5 million.
5 There is a backstop payment fee that we're seeking approval
6 of. I did mention the DIP is going to be syndicated to all
7 convertible noteholders. But the members of the Ad Hoc Group
8 were already committed 57 million are given a backstop fee for
9 committing (indiscernible) amount. We initially negotiated
10 that fee to be \$2 million for the whole \$75 million
11 commitment.

12 As we noted in the DIP motion, which we filed and
13 never (indiscernible) economic issues, which (indiscernible)
14 those economic issues were, we were successful in getting the
15 noteholders to agree that is could be (indiscernible) down to
16 the lower commitment amount.

17 So (indiscernible) 1.6 mil is for the backstop fee.
18 And then these group will also be paid in kind.

19 Then there's the termination fee. It gets a little
20 complicated but at the time the Debtors payoff of the DIP
21 facility in these circumstances, the Debtors will move to pay
22 115 percent of all outstanding new money loans with cash, in
23 addition to other obligations outstanding.

24 We knew at the time we filed the DIP motion that
25 there was still some back and forth as to whether this

1 15 percent termination fee would apply (indiscernible) with
2 interest, or pay fees on the outstanding loan amounts.

3 That industry should be (indiscernible), it will
4 because it was -- to provide an example, in order to pay off
5 the \$37.5 million DIP during the interim period, the Debtors
6 would have to pay -- we would have to pay off that
7 37.5 million, plus the two percent up-front fee, plus the
8 (indiscernible) backstop fee, plus (indiscernible) interest,
9 and an additional 15 percent of all those combined.

10 So just (indiscernible) calculation, that's about
11 four weeks to pay off the \$37.5 million DIP. The Debtors
12 would need to pay almost \$9 million more, or \$46.25 million.

13 There are additional termination fees for the roll
14 up loans. And depending on how the DIP is paid off at the
15 exit, but those are really not applicable in the interim
16 period, so I won't get into those now.

17 And as set forth in Mr. Singh's Declaration, these
18 are the best we could negotiate, and we believe they are
19 reasonable under the circumstances as a package deal, and
20 (indiscernible) benefits the Debtors are getting from the DIP
21 financing.

22 Okay. So we talked briefly, and Mr. Schrock talked
23 about the milestones. These are set forth in the DIP. It's
24 actually (indiscernible) nimble, but not super tight. It
25 gives us the time to (indiscernible) we need to do.

1 I just (indiscernible) our equipment lenders, and
2 maybe somebody else will come along at some point, if the
3 price of bitcoin goes up. So they're comfortable with these
4 milestones, 75 (indiscernible) file a plan.

5 But there's an additional 75 million, 150 days for
6 the Court to enter the confirmation Order. And that, they
7 might automatically extend it, extend the maturity date that
8 they have the right to do.

9 And the effective date milestone is 155
10 (indiscernible).

11 The next I was going to turn to the discussion of
12 the collateral and priority and (indiscernible), unless Your
13 Honor has any questions about what I've already talked about?

14 THE COURT: No, I'm with you so far.

15 MS. BERKOVICH: Thank you, Your Honor.

16 So I did want to talk about the collateral for a
17 minute. This is not a typical situation where the primary
18 pre-petition unsecured creditor has a blanket lien on all
19 assets and are only a secured party.

20 We've already heard from some of our equipment
21 lenders this morning, and last night, we heard from one of our
22 parties with a mechanic's lien. Importantly, the equipment
23 lenders have liens on equipment that's not part of the
24 convertible noteholder collateral package.

25 And we have a lot of real estate that was not

1 encumbered by the convertible noteholders lien. At this
2 point, over \$65 million in mechanic's liens have been filed
3 against that real estate for unpaid construction amounts.

4 And here's how this all shapes out in the DIP Order.
5 So the DIP lenders are getting a first priority lien on
6 substantially all of the unencumbered property. The DIP
7 lenders are keeping a lien junior to what we call permitted
8 prior senior liens and this is a concept that's changed a
9 little bit in the DIP Order from the version that we had on
10 file yesterday, from what we filed this morning. And so when
11 I get a chance to walk through the DIP Order, I will point out
12 where this is.

13 But the permitted prior (indiscernible) definition
14 is from the credit agreement. And I'll read it for the
15 Record. It's liens on the assets of property financed by the
16 debt or other obligations set forth in Schedule 10.2.2, to the
17 extent such liens and security interest were valid, protected
18 and non-avoidable as of the petition date," end quote.

19 So the Schedule that we prepared as part of the
20 credit agreement with equipment and non-equipment secured
21 loans and mechanic's liens that the Debtors have identified.
22 It does not list the equipment (indiscernible).

23 It also will contain language that would include
24 mechanic's liens that are properly perfected after the
25 petition date, pursuant to Section 536(b). So it goes back to

1 the DIP lenders for (indiscernible).

2 The DIP lenders are priming, and other existing
3 liens including the convertible noteholders pre-petition
4 liens. All of those categories are what we call DIP
5 collateral, and the DIP lenders are also getting a
6 superpriority admin claim.

7 Now to move onto the noteholders. As adequate
8 protection for the diminution in value of their collateral,
9 pre-petition secured noteholders are getting what placement
10 means in the DIP collateral, junior to DIP liens.

11 And they're also getting junior superpriority admin
12 claims.

13 So I will spend a minute on the equipment lenders
14 and lessors. They are an important (indiscernible), and we
15 have been talking about it for months.

16 This is not the first that we're seeking
17 (indiscernible) from them. They are many of them, the debt
18 exceeds \$300 million. 285 million of that approximately is
19 the debt from the mining equipment, you know, the miners that
20 actually produce the bitcoin.

21 We did in this Order provide, you know, gratuitously
22 from the adequate protection for them, but this Order was
23 never intended to be a conclusive determination, but they're
24 adequately protected. There's no request for termination in
25 that Order.

1 We understand from talking to their counsel that
2 what we put in there, which I'll get to, may not be sufficient
3 but it is a starting point.

4 They have the right under the Code to ask for
5 adequate protection and we are committed to speaking to them
6 to try to dissolved their concerns about adequate protection,
7 as well as we can (indiscernible) each of them in the
8 (indiscernible) of restructuring.

9 Your Honor early properly touched on some of the
10 issues in the process that might be required for that. In the
11 first instance, we will try to work out the valuation issues
12 consensually, but we've heard loud and clear that Your Honor
13 is ready to go if we need the Court's assistance with any of
14 this and the Court is very familiar with the issues involved.

15 As Mr. Ferris, the attorney for BlockFi,
16 represented, some of the equipment lenders, not all of them,
17 have organized as a group with some of their concerns, which
18 is coming across that they are concerned over adequate
19 protection in the Order. That's very helpful to us. It's not
20 your typical group because they all have different agreements
21 and they have different collateral, they have different
22 values, some are better machines than others, some are more
23 under-secured than others. They have individual issues, but
24 they also have issues that overlap or they're similar.

25 And so what we do provide in the Order -- this is

1 even prior to the negotiation with them -- we do give them
2 adequate protection claim for any diminution in value of their
3 equipment and adequate protection replacement liens that are,
4 with respect to their existing collateral, senior to all other
5 liens including DIP liens and liens of the prepetition secured
6 noteholders.

7 And then with respect to the noteholder prepetition
8 collateral, the equipment lender adequate protection liens are
9 junior (indiscernible) and these are junior to DIP liens, but
10 *pari passu* with the noteholder adequate protection liens on
11 assets that are currently unencumbered. And all of this is
12 subject to those lenders having valid and properly perfectly
13 liens.

14 We'll go through the language in the Order in a
15 minute and I'm sure if I didn't get it exactly right,
16 Mr. Gilad will come in and (indiscernible) that, but
17 everything's, of course, just language in the Order.

18 There's also a standard carve-out for professional
19 fees.

20 So I will pause there because this is a little more
21 complex than normal and I don't know if this is the issue that
22 the Court had questions on.

23 THE COURT: So let me -- now is a great breaking
24 point.

25 So with respect to -- number one, I appreciate the

1 redline. When I was listening to the opening presentation, I
2 had the opportunity to review the redline that is attached to
3 108. I don't have any questions. If you want to highlight a
4 certain provision for me, I'm happy to go there, but I've also
5 had the opportunity to look at and I'm relatively comfortable
6 with what's there and more focused on the changes that were
7 made. None of the changes caused me any heartburn at all.

8 I do have just a couple of issues that I want to
9 highlight and maybe this will help others, maybe it won't.
10 With respect to the avoidance action issue on the liens that
11 are granted, conceptually I don't have a problem with it. I
12 do generally ask that there be a last-look provision added
13 with respect to avoidance proceeds and just given the way that
14 this is, I don't see any harm and it takes a strategic concern
15 out of play for me.

16 So I would ask that as you work toward a final
17 because I know that this isn't coming today is that you look
18 at other Orders that the other parties talk about some last-
19 look language for avoidance proceeds.

20 With respect to the roll up, again I got what's
21 being done. I do really, really like the dollar-for-dollar
22 creep because it protects interests in case something we all
23 don't anticipate occurring, that it just protects everybody's
24 rights and so actually it stops a lot of the jockeying or at
25 least it's been my experience. So I would ask that as you

1 look at that roll up is that you think about the dollar-for-
2 dollar creep.

3 And perhaps that's just -- maybe I should explain
4 that because now that I'm listening to myself, that sounds a
5 little weird but it just simply, as advances are made, that
6 the roll up creeps up with the total advances that have been
7 made so I just ask that you think about that.

8 With respect to the exercising of remedies, you
9 covered all of my concerns. I appreciate your pulling that
10 from somewhere else because again I think that that's just the
11 right balance.

12 I think other than that, again I -- this is
13 expensive money. I don't think anybody's to say that this is
14 just a bargain. It's expensive money. Lending into this type
15 of situation is going to be expensive because I don't know how
16 you assess the risk. And given the PIC feature, I mean, PIC
17 loans are always expensive and I got that issue too. It's
18 just part of the risk assessment. So I understand it.
19 Obviously if Ms. Hardy comes up with something that's better,
20 faster, stronger, cheaper, we're all going to applaud her and
21 have another conversation, but I got it. It's not out of the
22 range of what I expected to see.

23 I think those are my general comments with
24 respect -- again this is just -- it's an interim request. I
25 don't know if there are other comments or arguments the

1 parties want to make with respect to the interim with the
2 understanding that again however you all choose to resolve
3 these issues with respect to adequate protection of valuation
4 or otherwise, I stand ready to go. But if there are other
5 arguments that folks want to make with respect to the revised
6 proposed Order that can be found at Docket 108, I'm happy to
7 hear them and engage.

8 Mr. Ferris, you want to go first?

9 MR. FERRIS: Yes. Thank you, Your Honor. Again for
10 the Record, Matt Ferris, Haynes and Boone, on behalf of
11 BlockFi.

12 Your Honor, I appreciate Ms. Berkovich's comments.
13 Those are helpful. And those -- they're consistent with our
14 understanding of the way the lien priorities are supposed to
15 look and consistent with the Motion and the Declaration in
16 support of the DIP.

17 Unfortunately, we don't find the Order to be quite
18 as clear on that. And this permitted prior lien concept,
19 that's a fairly recent concept that's been added and that's
20 not to say that it is not a workable concept, but it
21 references a schedule that we haven't seen yet and so we fully
22 expect that the schedule will be consistent with what's been
23 represented. We just haven't seen it.

24 And I also have -- my personal preference,
25 Your Honor, is rather than having references to documents that

1 are not necessarily attached to the Order is to just have the
2 Order reflect what's happening, which is that, as we
3 understand it, there is no priming of the equipment miner
4 liens, that any liens that are being granted in connection
5 with the DIP are going to be junior to the valid properly
6 perfected prepetition equivalent of liens as well as adequate
7 protection liens on that that are replacement liens on that
8 same collateral.

9 THE COURT: Sure.

10 MR. FERRIS: The one issue -- I'm sorry, excuse me,
11 Your Honor, go ahead.

12 THE COURT: No, my fault. What I was going to
13 suggest is, Ms. Berkovich, if you haven't already done so, if
14 you could have somebody send that schedule and maybe even
15 perhaps a highlighted version over to Mr. Ferris? We've got a
16 number of other things to talk about and perhaps maybe someone
17 else on the Weil team and, Mr. Ferris, someone else at your
18 shop who's involved in this could perhaps talk offline, see if
19 we have an issue or not and then we can revisit toward the end
20 or we can say, "Well, we're going to make -- we're going to
21 add this language or delete that language and we're good for
22 purposes of the interim."

23 Could I ask you folks to do that? No need to stake
24 out a position. Let's just get -- let's get to it and see if
25 we have a problem or not. Can we do that?

1 MR. FERRIS: That works for us.

2 MS. BERKOVICH: Yes, sir.

3 THE COURT: All right. Thank you.

4 MS. BERKOVICH: And we send over to Mr. Ferris and
5 the other equipment lenders we've been talking about. I can
6 represent that his client is on there and then muted. And I
7 understand why he wants to (indiscernible) himself.

8 THE COURT: Of course.

9 MS. BERKOVICH: Any equipment lender that we know
10 about we've put on that schedule. We worked on that
11 (indiscernible) resolved any issues connected with the Order.

12 THE COURT: I got it. If I could do this:
13 Mr. Ferris, do you want this to come to you or is there
14 someone else who is off camera that is as engaged as you are
15 in this issue?

16 MR. FERRIS: Yeah. My partner, Arsalan Muhammad, is
17 participating in the hearing as well and he's been on the
18 email traffic so if they can just send it to him, that'd be
19 great.

20 THE COURT: Fair enough. I just didn't want to miss
21 someone because we didn't mention them, so that's -- I know
22 Mr. Muhammad well and he will be on this just as quickly as he
23 gets it so terrific.

24 And, Mr. Ferris, I interrupted you. I didn't mean
25 to do that. I just wanted to deal with that issue.

1 What was your other concern?

2 MR. FERRIS: Your Honor, that was the overarching
3 concern. Again I'm not going to belabor the point on adequate
4 protection. We will work with the Debtors on that and if we
5 need to come back, we will.

6 I will say that we have not been included in some of
7 the typical secured lender protection so we will continue to
8 work on that in connection with a final. And as others have
9 done, we just reserve all rights with respect to issues that
10 are set for the final hearing including the roll up
11 as -- to the extent not (indiscernible) as a potential -- as a
12 (indiscernible) deficiency claim.

13 THE COURT: I got it. I haven't been involved in
14 those discussions either so we'll just work through those
15 issues together if, as and when they are -- they remain live,
16 okay?

17 MR. FERRIS: Thank you.

18 THE COURT: Yes, sir. Let me ask: Anyone else?

19 MR. GILAD: Your Honor, this is Erez Gilad with Paul
20 Hastings. Can I be heard?

21 THE COURT: Of course.

22 MR. GILAD: Good morning, Your Honor. Erez Gilad
23 for the Record, Paul Hastings, counsel to the DIP lenders and
24 the Convertible Noteholder Ad Hoc Group.

25 THE COURT: Yes, sir.

1 MR. GILAD: So my comments address both substance
2 and process, but let me address Your Honor's latest comments
3 first. In terms of process, it is fair to say that this was
4 an (indiscernible) process that occurred over the last 24-48
5 hours and it was rolling so there is a pending version of the
6 DIP Credit Agreement and the same schedule that is being
7 edited as we speak.

8 And we can confirm, as Ms. Berkovich already did,
9 that Mr. Ferris' client is on this payment schedule so we plan
10 -- we and the Debtors plan to get that over to him right away.
11 We still think that times out. I think there are some tweaks
12 on our side we want to incorporate and then absolutely we're
13 confident that the materials we send over will (indiscernible)
14 his concerns. And then if they don't, we'll do our best to
15 address his comments and we can go from there.

16 And in terms of other equipment financing lenders,
17 we hope that we solve this issue not just for Mr. Ferris, but
18 for all the other counsel that reached out. We told everyone
19 that we would and we hereby represent that the DIP liens do
20 not prime the mechanic liens and they do not prime liens and
21 the machines and equipment that secure the equipment financing
22 to the extent they're validly perfected as of the petition
23 date.

24 If I may, there are some other comments I'd like to
25 make in terms of some of the statements made in respect to the

1 DIP and the final hearing, if that's okay.

2 THE COURT: Sure.

3 MR. GILAD: One other aspect about the DIP roll up
4 that I think Your Honor will find to be fascinating is the
5 roll up, if and when implemented, does not throw up any
6 interest so a zero percent interest roll up so that, I think,
7 is maybe the first of its kind.

8 Number two, one clarification. An earlier iteration
9 of the DIP had a creeping roll up concept to it, but in light
10 of the shift and evolution of the negotiations, the roll up
11 will fully occur upon --

12 THE COURT: To their lien.

13 MR. GILAD: -- if and when the final Order is
14 entered, but bear in mind however that the amount of the roll
15 up is far below the traditional two-to-one ratio that the
16 Court typically sees. So I think that between the economic
17 terms of the roll up, the need for the financing, which is
18 essentially a lifeline for the company, we do hope that it
19 will meet with the Court's approval, but again that's all
20 rights reserved at the final hearing.

21 THE COURT: Wait.

22 MR. GILAD: In terms of --

23 THE COURT: Can in interrupt you for just a second?
24 You're just telling me that the creep has no effect because
25 you're going to fully draw at a final hearing.

1 MR. GILAD: I believe that it may not be fully drawn
2 at the final hearing.

3 THE COURT: Okay.

4 MR. GILAD: There may be interim -- there may
5 borrowings that occur from and after the final, but the full
6 committed amount will be rolled up.

7 THE COURT: I got it. I just misunderstood what you
8 said. I got it. And I wasn't saying that's a requirement. I
9 just said I like it. It's easier -- it's an accretive thing
10 for me and there are other issues that I'm willing to just
11 simply bite my tongue on as part of an overall deal and that
12 tends to be one that is easy to accomplish when folks know
13 that I really do like the one-for-one creep. That's all.

14 MR. GILAD: Thank you, Your Honor. The last comment
15 I'll make and because a lot has been made about this in terms
16 of purported unencumbered value.

17 THE COURT: Uh-huh.

18 MR. GILAD: Yes, there is unencumbered value in the
19 case, but it's also important to put these into perspective
20 and proper context and not overstate the extent of that
21 unencumbered value.

22 I guess the best practical way to understand the
23 concept is that this is a chapter 11 filing that has been very
24 well previewed. It's not advertised for many weeks prior to
25 the actual filing date and I think it's fair to say that in

1 looking at the demonstrative exhibits prepared for the First
2 Day Hearing, which is very helpful, I think nearly all members
3 of the capital structure are here in front of you at the table
4 and in court.

5 The Debtors, as far as we are aware, extensively
6 marketed the DIP and were in active dialog with many if not
7 all of the people that are currently before you in the court.
8 And here we are, this is only committed financing that is
9 available to the Debtors. So I think that that should speak
10 to the overall concept as to the role if any that the notion
11 that there's unencumbered value here would play into future
12 misgivings if any about this DIP financing.

13 So I'll leave it at that other than to say we do
14 appreciate the efforts of the Debtors and their professionals.
15 It's been a very active process. I'd like to say that this
16 was more than arm's length. It was arm wrestling. Ms.
17 Berkovich was very successful in the negotiations. So I'll
18 leave it at that and thank the Court.

19 THE COURT: All right. Thank you, sir.

20 Anyone else? Mr. Lohan?

21 MR. LOHAN: Your Honor, Brian Lohan, on behalf of
22 Barings again. I've been wanting to do this at the risk of
23 opening the floodgates because we tried to streamline
24 everything through Mr. Ferris, but if -- it would be really
25 helpful if Ms. Berkovich or Mr. Gilad could confirm to Barings

1 who will also be on that schedule 10.2 as well.

2 THE COURT: So let's do this because I don't want to
3 open that floodgate because every single person will do that.
4 I assume that you're on the circulation list for the revised
5 agreement on the schedule.

6 MS. BERKOVICH: Yes.

7 MR. LOHAN: Yeah.

8 THE COURT: All right. Why don't we -- Mr. Lohan,
9 if you're not, then we need to ask why not, but let's get the
10 schedule so that I don't get every single person saying,
11 "Well, what about me," and "What about me?" If it turns out
12 that there's a problem, I will sit here as long as we need to
13 and I will be available to resolve this issue, but let's see
14 the document and let's just save the headache if we could.

15 MR. LOHAN: Of course, Your Honor.

16 MS. BERKOVICH: Yeah. We'll send it out when we
17 (indiscernible) with Mr. Lohan, Mr. Ferris and all the
18 (indiscernible) lenders that we spoke to last night. If
19 anyone else would like to see the schedule, please send me an
20 email. My email address is on the pleadings and I will send
21 you the schedule as well.

22 THE COURT: Terrific. Thank you. All right.
23 Anyone else?

24 MR. RUFF: Good afternoon -- or good morning still,
25 Your Honor. Jayson Ruff for the US Trustee's Office.

1 Can you hear me okay?

2 THE COURT: I'm clear. Thank you. And good
3 morning.

4 MR. RUFF: Okay, great. Your Honor, I only rise
5 just to raise the one outstanding issue that we have and our
6 purpose, our role really is more to, in these interim
7 proceedings, just try to preserve people's rights, due process
8 rights and see that the status quo is achieved as much as
9 possible.

10 And the only open issue -- first of all, I just want
11 to extend my thanks to the Debtors and probably the lender
12 group in the background for their willingness to work through
13 what's a very compressed time frame. The only issue that we
14 still had, Your Honor, was with respect to the time amount --
15 the time allowed for a trustee whether it's a chapter 7 or
16 chapter 11 trustee.

17 THE COURT: Uh-huh.

18 MR. RUFF: We would originally propose that there be
19 a 10-day time frame. We had asked for 60 days. The Debtors -
20 - and I guess with an agreement -- the lender group came back
21 at 30 days. We still believe that's a little bit too
22 compressed of a time frame to allow for a trustee to actually
23 perform their duty. And so we proposed a 45-day period as a
24 compromise so that's the only issue that we have and I just
25 wanted to flag that for Your Honor.

1 THE COURT: No, Mr. Ruff, I appreciate it very much.
2 I think that 30 days is just fine. Thank you.

3 Anyone else?

4 MR. TWOMEY: Yes, Judge Jones, one final request.

5 THE COURT: Yes, sir.

6 MR. TWOMEY: Again Dennis Twomey, on behalf of
7 NYDIG. I think 10(b) -- Section 10(b) of the DIP Order
8 provides that the Debtors will provide reportings to the
9 secured parties and to the prepetition agents of the Ad Hoc
10 Group. We would ask that those same materials be shared with
11 -- I'm guessing all of the equipment lenders would like them,
12 but I'll certainly -- on behalf of NYDIG, if we could also get
13 those materials shared with us, we would appreciate that.

14 THE COURT: Unless there's some confidential
15 business reason not to do this.

16 Ms. Berkovich, if we appoint Mr. Ferris as the
17 beginning of the distribution list, would you have any problem
18 adding Mr. Ferris?

19 MS. BERKOVICH: So I believe what's being asked for
20 now is the reporting that the DIP lenders get under the DIP
21 loan and shortly before this hearing, we were (indiscernible)
22 separate from Mr. Ferris' group asked for that reporting. We
23 told him that we just need to look at what it is and think
24 about whether there's any confidentiality issues or any other
25 reason, competitive issues that we would not want to give the

1 same level of reporting the DIP lender gets to our equipment
2 lenders. They're not entitled to reporting at this time.

3 We will work out an adequate protection package with
4 them and some of that might include reporting and we may have
5 no problem giving him reporting that he's asking for. I just
6 cannot say that at this time. Perhaps someone --

7 THE COURT: Fair enough. So let me deal with this.
8 So, one, I do want to be concerned because of the comments
9 earlier that one or more equipment lenders may be purchasers.
10 They may have other roles in the case and I'm sensitive to
11 that. I'm also sensitive to competitive issues. Let's do
12 this -- and again I -- this is not an adequate protection
13 issue with me so much as it is just a transparency of the
14 process issue.

15 So, Mr. Twomey, what I'm going to ask is that you
16 engage on what it is you're looking for because again I'm
17 still learning as well and I certainly am not trying to tip
18 the scale in any direction, but I do like transparency over
19 less transparency and so I'm going to ask you to have that
20 conversation.

21 If it turns out that there is a problem, I am
22 perfectly happy to take that issue up on an emergency basis in
23 and of itself, but I do think it's probably worth -- I mean,
24 now that I've said what I've said, it's probably worth having
25 a conversation just to see what information it is that you're

1 really interested in.

2 And also again I want the professionals to all look at
3 this because I do not want something that, in my effort to
4 have transparency, all of a sudden change competitive
5 advantage or the economics of anything to the Estate's
6 detriment. So if I could ask you to have that with a promise
7 that if you can't find common ground or there's something you
8 really believe you need, I will take that up on an emergency
9 basis as soon as you ask, okay?

10 MR. TWOMEY: Thank you, Your Honor.

11 MS. BERKOVICH: Thank you, Your Honor.

12 MR. TWOMEY: I appreciate it and I'm confident we'll
13 be able to work something out.

14 THE COURT: Okay. Thank you. Anything else?

15 MS. BERKOVICH: Your Honor, I did want to just
16 clarify one point in my describing the equipment liens
17 earlier. The equipment lenders have a lien in about half of
18 the company's miners. The company also has tens of thousands
19 of miners that are not subject to the liens of the equipment
20 lenders that are part of the collateral that was granted to
21 the featured noteholders. So I just want to make sure that
22 there's no confusion in the Record on that point.

23 THE COURT: I am absolutely certain there's all
24 sorts of confusion and we'll just work our way through that.
25 I do want the document to get circulated so we can all not be

1 guessing and trying to be protective and we can actually say,
2 "This works" or "It doesn't work," and we'll just -- we're
3 just going to have to deal with that. But I got the point.
4 We'll figure out a way to address all this. But I do want
5 everybody to see the same document so we all know what we're
6 working from.

7 Let me ask -- last opportunity. Anyone want to
8 raise an issue, have an objection?

9 (No verbal response.)

10 THE COURT: All right. Then again with the
11 understanding that we will address many of these issues again
12 at a final, based upon the Record that I've got before me both
13 regarding the lack of alternatives, the nature of the
14 business, the current cash position, I am going to find that
15 the requested relief is appropriate. It meets the relevant
16 provisions of the Bankruptcy Code.

17 From a practical perspective, we have to be able to
18 get from point A to point B. It's expensive money, but it's
19 the only game in town and it is money that solves a lot of
20 short-term issues.

21 So I am going to find that the Debtor has properly
22 exercised its business judgment. And again I think those
23 critical issues that needed to be dealt with on an interim,
24 they have been. And again we're going to revisit some of this
25 issues on a final, but I'm concern that as best we can -- and

1 it's not always possible to preserve the status quo and it
2 shouldn't be because there is an extension of the value that
3 is sorely needed that is being injected.

4 I'm going to approve the interim request as we have
5 modified with various statements in the Record this morning
6 with again the revisions set forth in what is Docket No. 108.
7 I will approve the DIP on an interim basis.

8 Ms. Berkovich, as you -- as we work through -- and
9 if we need to come back and deal with specific language on a
10 propose Order, we can. But this is subject to the submission
11 of a revised form of Order that everyone who has an interest
12 or has expressed an interest and seen it has had the
13 opportunity to look at it.

14 The one thing I need to give you is your next
15 hearing date. Did you have thoughts in mind?

16 MS. BERKOVICH: Your Honor, I'll just say one thing.
17 We should have coordinated on this before but with everything
18 going on we did not. I do know that the clients would like
19 the hearing to be before January 21st in Order to get the
20 financing done by then so sometime in that week. I will turn
21 it over to Mr. Schrock to try to figure that out with you.

22 THE COURT: Okay. The 19th or 20th seems to me to
23 give everybody maximum time and still meet the requirement
24 that you've expressed by your client.

25 Do you have a preference, Mr. Schrock,

1 Ms. Berkovich, anyone else?

2 MR. SCHROCK: The 19th sounds good, Your Honor.

3 THE COURT: The 19th? What about -- just given
4 everything else I've got that day, what about 3:30 Central
5 time? Would that work for everyone? I know it's a little
6 late in the day for our East Coast colleagues but that's the
7 best for me.

8 MR. SCHROCK: Okay.

9 THE COURT: Does that work? Okay.

10 MR. GILAD: If I may, Your Honor? This is
11 Erez Gilad from Paul Hastings. I'm out of the country that
12 week.

13 THE COURT: Are you able --

14 MR. GILAD: Is it possible to -- I don't know if the
15 Debtors are available on Monday, the 23rd, or if the Court's
16 available.

17 MS. BERKOVICH: That might be a holiday. If that
18 will give -- if that's okay from a --

19 THE COURT: Yeah, the holiday is the 16th.

20 MS. BERKOVICH: Okay.

21 MR. SCHROCK: Yeah, that's the weekend. That's okay
22 for me, Ronit, if it's okay for you.

23 MS. BERKOVICH: I think (indiscernible) 23rd works
24 for the company. It probably does. Let me just confirm
25 offline and then we'll confirm the hearing date shortly.

1 THE COURT: All right. So let me do this because I
2 have a trial that starts that day, but I will just send
3 everybody to lunch so what I would be offering would be noon
4 on the 23rd.

5 MR. SCHROCK: Why don't we pencil that in,
6 Your Honor?

7 THE COURT: Okay.

8 MR. SCHROCK: And we'll let you know if there are
9 any issues, but that sounds fine.

10 THE COURT: All right. Anyone have a problem with
11 noon on the 23rd?

12 (No verbal response.)

13 THE COURT: Okay. With objections due -- since the
14 16th is a holiday, objections due by close of business on the
15 17th?

16 MR. SCHROCK: Uh-huh.

17 THE COURT: Okay.

18 MR. SCHROCK: That's good, Your Honor. And I heard
19 from the company since you've been speaking. That's a
20 confirmed time. Thank you.

21 THE COURT: All right. Terrific. And again subject
22 to the submission of a revised proposed Order,
23 Ms. Berkovich, if you would simply just have somebody on your
24 team coordinate with Mr. Alonzo, I will -- and again the
25 redline is always much appreciated, just makes my life a whole

1 lot easier.

2 MS. BERKOVICH: Understood and will do,
3 Your Honor. Thank you very much.

4 THE COURT: All right. Thank you.

5 MR. SCHROCK: Thank you, Your Honor.

6 THE COURT: Yes, sir. Thank you.

7 What's next?

8 MR. SCHROCK: Ronit, do you want to turn it over to
9 (indiscernible)?

10 MS. BERKOVICH: Next on the Agenda is the Motion to
11 approve the payment to critical vendors. My colleague,
12 Destiny Reyes, will be handling that.

13 THE COURT: All right. Thank you. Let's see,
14 Ms. Reyes -- Ms. Reyes, is fancy. There we go. All right.
15 Ms. Reyes, good morning.

16 MS. REYES: Good morning, Your Honor.

17 Destiny Reyes of Weil Gotshal and Manges, on behalf
18 of the Debtors.

19 THE COURT: All right. Thank you. Whenever you're
20 ready.

21 MS. REYES: Your Honor -- thank you. Your Honor,
22 the next item on the Agenda is Item No. 4, the Debtor's
23 critical vendor Motion, filed at Docket No. 4. The Debtors
24 seek interim authority to pay prepetition claims of certain
25 vendors including those whose goods and services are critical

1 to the Debtor's operation and lien vendors that may be
2 entitled to liens against the Debtors or their customers'
3 assets.

4 We settled any concerns of the United States Trustee
5 prior to this hearing.

6 The Debtors are seeking authority to pay \$300,000 in
7 the interim on critical vendor claims and an additional \$300
8 on lien claims.

9 MALE SPEAKER: 300,000.

10 MS. REYES: 300,000, yes.

11 THE COURT: Big difference.

12 (Laughter.)

13 MS. REYES: Sorry. Thank you.

14 THE COURT: No, because my --

15 MS. REYES: Further, the Debtors --

16 THE COURT: My salary is \$300. Yours is probably
17 closer to 300,000.

18 MS. REYES: 300,000 for each critical vendor and
19 liens. Sorry about that.

20 THE COURT: Quite all right.

21 MS. REYES: Further, the Debtors seek authority to
22 enter into trade agreements substantially in the form of
23 Exhibit C of the Motion in Order to solidify favorable trade
24 terms for the Debtors. The Debtors also seek limited
25 authority to pay vendor claims in the event that no agreement

1 can be executed or where one is unnecessary or prohibited.

2 The uninterrupted continuation of the Debtor's
3 business depends upon the continued support of those vendor
4 claimants and we're going to pay the vendors on the terms and
5 conditions set forth in the interim Order, would likely create
6 a crisis in confidence among such vendors and consequently the
7 hosting customers, which would significantly harm the Debtor's
8 business to the detriment of all the stakeholders. I'm happy
9 to answer any questions Your Honor may have.

10 THE COURT: All right. Thank you. Mr. Ruff, this
11 seems pretty straightforward to me and actually is a modest
12 request.

13 Any concerns?

14 MR. RUFF: No concerns and they did preview it with
15 us, Your Honor, so we're -- no opposition to this.

16 THE COURT: All right. Thank you. Anyone else wish
17 to address the request?

18 (No verbal response.)

19 THE COURT: All right. Again I think the request is
20 modest. I think that it is undeniable that being able to
21 address transition issues aids in increasing or maximizing the
22 value of the Estate and the ongoing value of the business. I
23 don't have any concerns of the request.

24 I'll find that under the circumstances, due process
25 has been served and a notice is sufficient.

1 Let me ask: Ms. Reyes, it seems to me we've got a
2 blank that we need to fill in. Were you thinking of trying to
3 have this on the 23rd as well or did you have another time in
4 mind?

5 MS. REYES: The 23rd works for us, Your Honor.

6 THE COURT: All right. So let me do this.

7 (Pause in the proceedings.)

8 THE COURT: So January the 23rd at 12:00 o'clock
9 noon.

10 And objection deadline we said the 17th, didn't we?

11 MALE SPEAKER: Uh-huh.

12 MS. REYES: Yes.

13 THE COURT: All right. And we didn't pick a time
14 for objections, but it just seems to me if we just said
15 4:00 o'clock Central, does that make sense?

16 MALE SPEAKER: That's good.

17 MS. REYES: Yes.

18 THE COURT: All right. Ms. Reyes, I have
19 interlineated those blanks on the proposed Order. I'm happy
20 to show it to you if you don't trust me, but I'm pretty
21 confident I got that part right.

22 MS. REYES: We trust you. I do want to flag one
23 thing for Your Honor. On paragraph 4 of the Order, there is a
24 date of December 31st but we want to change that to
25 January 31st, if there's no objection from Mr. Ruff, as

1 agreed.

2 THE COURT: Okay. So you want to --

3 MR. RUFF: No opposition to that, Your Honor.

4 THE COURT: All right. So I'm interlineate -- or
5 I'm going to replace December 31, 2022 with January 31st, 2023
6 in paragraph 4, correct, Ms. Reyes?

7 MS. REYES: Thank you.

8 THE COURT: Okay.

9 MS. REYES: Yes.

10 THE COURT: Okay. Anything else?

11 (No verbal response.)

12 THE COURT: All right. That Order has been signed
13 and it is off to docketing.

14 Ms. Reyes, what's next?

15 MS. REYES: Thank you, Your Honor. The next item on
16 the Agenda is No. 5, the Debtor's insurance Motion filed at
17 Docket No. 13. We previewed the proposed interim and final
18 Orders with the US Trustee here as well, as well as the Ad Hoc
19 Group and they incorporated minor edits accordingly.

20 In this Motion, we're seeking authority to continue
21 the insurance program and to pay related prepetition
22 obligations related thereto as well as grant limited relief
23 from the automatic stay to permit workers compensation claims
24 to proceed in the ordinary course.

25 Your Honor, like any other company, the Debtors need

1 to maintain a wide variety of insurance programs in order to
2 conduct their business and remain good corporate citizens.
3 Accordingly, pursuant to this Motion, the Debtors are seeking
4 authority to maintain their various insurance programs and
5 (indiscernible) including the payment of broker fees in the
6 ordinary course of business.

7 In this interim period, we're requesting authority
8 to continue these insurance programs and to pay or otherwise
9 satisfy any insurance obligations in the ordinary course and
10 pay for prepetition amounts of \$330,000 in property insurance
11 obligations and \$5,000 in workers compensation program
12 obligations. Again I'm happy to answer any questions Your
13 Honor may have.

14 THE COURT: So let me ask you: what's the difference
15 between the interim request and the final request? Because
16 doesn't this work a hardship on the company? Because
17 everyone's going to look at an interim Order and say, "Well,
18 this really doesn't help because it's going to get revisited."
19 I mean, we all want the Debtor to be adequately insured. I
20 mean, everybody wants that. But what was the difference?

21 MS. REYES: Right. So the difference is really due
22 process and providing notice to those parties that might have
23 any objections in the interim, but providing that adequate
24 assurance and also having this be final would be most welcome
25 for us, Your Honor.

1 THE COURT: I just -- this just seems to me to be
2 one of the stabilization issues so that everyone can know that
3 the Debtor is a commercial actor adequately insured with the
4 ability -- with no changes waiting to happen. I just think
5 that it maximizes corporate opportunity.

6 Let me ask it this way: is there any objection to my
7 granting the insurance Motion on a final basis?

8 (No verbal response.)

9 THE COURT: All right. With that, again for those
10 reasons that I've expressed -- and I very much appreciate the
11 due process concerns. This is one of those things that I
12 think the primary concern of the US Trustee and those folks
13 who will deal with the Debtor on an ongoing basis and I think
14 this is just a level of competence that is needed in order to
15 maximize the Debtor's chances going forward.

16 So I am going to grant the Motion. I had a chance
17 to read it. And I think the due process has been satisfied,
18 the notice is sufficient. Given the requested relief and the
19 fact that we've got an active US Trustee present, I'm going to
20 grant the Motion on a final basis. I'm going to use the
21 proposed form of Order that's found at 13-2.

22 Ms. Reyes, can you just verify that I've got that
23 right?

24 MS. REYES: Yes, Your Honor, I believe so.

25 THE COURT: All right. Thank you. That Order has

1 been signed and it is on its way to docketing.

2 What's next?

3 MS. REYES: Thank you, Your Honor. I'll pass the
4 podium to my colleague, Alex Kane.

5 THE COURT: All right. Thank you. Can I do one
6 thing? I meant to say this. I just found my note. With
7 respect to the DIP Order and the use of cash collateral, there
8 is a standard -- I didn't see it. There's a standard
9 paragraph that the ad valorem taxing authorities always want
10 and the only thing is since I didn't see it, I just wanted to
11 remind the Debtor of it. It avoids a fight. You know it's
12 coming when somebody pays attention to it. If it's already
13 there and I missed it, my apologies. That was just a note
14 that I made myself and I'm sorry for not catching it first
15 time.

16 And, Ms. Reyes, I am -- sorry, who did you say you
17 were passing the lectern to?

18 MS. REYES: Alex Kane.

19 THE COURT: All right. Thank you.

20 Mr. Kane [sic]?

21 MS. REYES: Thank you.

22 THE COURT: Thank you.

23 MS. KANE: Good afternoon, Your Honor. Alex Kane of
24 Weil Gotshal and Manges, on behalf of the Debtors.

25 THE COURT: Ms. Kane, my --

1 MS. KANE: Your Honor, the next item on --

2 THE COURT: I was just going to apologize for
3 calling you "Mister" Kane.

4 Ms. Kane, please proceed.

5 MS. KANE: It happens more than you think.

6 Your Honor, the next item on the Agenda is the
7 Debtor's taxes Motion, Docket No. 3. By this Motion, the
8 Debtors are seeking authority to pay taxes and fees that arose
9 prior to the petition date and any (indiscernible) amounts
10 that may come due in the ordinary course. The Debtors
11 estimate that approximately 8.9 million in taxes and fees
12 relating to the period prior to the petition date will become
13 due with approximately 2.95 million coming due within the 30
14 days following the petition date.

15 The table on page 4 of Docket No. 3, you'll see a
16 breakdown of the categories and the amounts the Debtors are
17 seeking to pay. The Debtors discussed this Motion with the US
18 Trustee and we incorporated their comments and we believe
19 there are no outstanding objections or issues.

20 Unless Your Honor has any questions around this
21 Motion, the Debtors request that the Court enter the Order
22 approving the Motion.

23 THE COURT: All right. Thank you. And it is the
24 Order that was attached to the Motion?

25 MS. KANE: Yes, Your Honor.

1 THE COURT: All right. Thank you.

2 Anyone else wish to be heard?

3 (No verbal response.)

4 THE COURT: All right. Again I think that this is
5 just another matter of operational common sense. The failure
6 to pay these amounts would result in the imposition of
7 extremely outrageous interest rates -- you can tell I'm a
8 Texas taxpayer -- as well as penalties. Again it just makes -
9 - it makes good commercial sense. I don't have any issue at
10 all. I've had a chance to review the proposed Order.

11 And, Mr. Ruff, just let me confirm you've had an
12 opportunity to look at the Order and are okay?

13 MR. RUFF: We have, Your Honor, and we are okay.
14 Thank you.

15 THE COURT: All right. Thank you. That Order has
16 been signed and it is off to docketing. Okay.

17 What's next?

18 MS. KANE: Thank you, Your Honor. The next item on
19 the Agenda is the Debtor's Motion to extend time to file
20 schedules, statements and Rule 2015.3 reports, which is Docket
21 No. 11. By this Motion, the Debtors are seeking entry of an
22 Order extending the deadlines to file their schedules and
23 statements by 30 days for a total of 44 days from the petition
24 date through and including February 3rd and the 2015.3 reports
25 until the later of 15 days after the 341 meeting or 45 days

1 from the petition date.

2 We believe this is appropriate considering the size
3 and complexity of the case. Unless Your Honor has any
4 questions, the Debtors request that the Court enter the Order
5 approving the Motion.

6 THE COURT: So the only question I have is: I want
7 to make sure that this gives you sufficient time to give me
8 you're a-game by the deadline. We all want these to be right
9 the -- as right as they can be first time out and I don't want
10 to pick a date that's artificial. I want to pick a date that
11 Mr. Ruff can schedule around, that creditors can have
12 confidence when they see the Schedules that they represent the
13 Debtor's best efforts. And if you tell me that this works,
14 I'll accept it. I just didn't want you to propose something
15 because you thought that's what I would do, but it's really
16 not enough time.

17 MS. KANE: I think we're okay with the dates
18 suggested.

19 THE COURT: Okay. And I assume, Mr. Ruff, you've
20 previously okayed this.

21 MR. RUFF: That is correct, Your Honor. Thank you.

22 THE COURT: All right. Thank you.

23 Then anyone else wish to be heard?

24 (No verbal response.)

25 THE COURT: All right. Then I've had a chance to

1 review the Motion. Again my only concern is that we get these
2 as accurate as they can be by the deadline. I'll accept the
3 representation that this is sufficient time.

4 I'll grant the Motion. I've reviewed the Order.
5 It's been signed and it is off to docketing.

6 What's next?

7 MS. KANE: Thank you, Your Honor. I'll be turning
8 the podium over to Mr. Fink (indiscernible).

9 THE COURT: Should I have given you a harder time?
10 It sounds like you got away too easy and she just disappeared.
11 I got it. I could ask more questions.

12 MS. KANE: I mean, I'm fine if you're fine.

13 (Laughter.)

14 MS. KANE: Okay. Thank you, Your Honor.

15 THE COURT: Thank you. All right.

16 Mr. Fink, good morning.

17 MR. FINK: Good morning, Your Honor. Moshe Fink of
18 Weil Gotshal and Manges, on behalf of the Debtors. I'm told
19 that it's almost lunchtime on the East Coast so I'm going to
20 try to be brief, Your Honor. The first motion that I have is
21 the cash management Motion that's filed at Docket No. 12.
22 Pursuant to the Motion, Your Honor, we request authorization
23 to continue the existing cash management system and what we
24 call a "Bitcoin management system" maintaining existing
25 business forms, intercompany arrangements and company credit

1 cards.

2 Your Honor, that's a pretty standard cash management
3 motion. The wrinkle that I would just like to flag for Your
4 Honor is that we're also requesting authority to sell Bitcoin
5 in the ordinary course. Mr. Schrock mentioned an important
6 component of this business is mining Bitcoin and then selling
7 the Bitcoin. We think it's ordinary course. We just want to,
8 with an abundance of caution, make sure it was clear that we
9 can continue to do that as described in the Motion.

10 So with that, Your Honor, I wanted to flag that we
11 discussed the Motion with the US Trustee. We incorporated
12 comments. We did file a revised proposed Order at Docket No.
13 55 reflecting an additional comments received from the Ad Hoc
14 Group with respect to some reporting under the Motion. At
15 55-2, there's a redline. And we'd ask -- request that Your
16 Honor enter that Order.

17 THE COURT: All right. Thank you.

18 Anyone else wish to be heard?

19 (No verbal response.)

20 THE COURT: Mr. Ruff, all of your comments get
21 incorporated?

22 MR. RUFF: They have been, Your Honor. Thank you.

23 THE COURT: All right. Thank you. I had an
24 opportunity to review the proposed modified Order at 55. I
25 don't have any concerns at all with the request. I think it's

1 just a necessary part of transitioning into a chapter 11 case
2 on an orderly basis.

3 And, Mr. Fink, with respect to the request that you
4 made, whether it's ordinary course or not, I don't know. I
5 also don't need to reach that conclusion to -- and as part of
6 its ongoing business. It's clearly set forth in the First Day
7 Affidavit that there's generally a -- that the Bitcoin are
8 liquidated within 48 hours of the award being made and I want
9 that process to continue as the Debtor utilizes its business
10 judgment to make the best possible decisions for the Debtor.
11 And if that -- hopefully that will be sufficient for everyone.
12 If it's not, I'm happy to take some different approach.

13 Let me ask: with respect to your hearing on the
14 final, do you just want to put that on the 23rd as well or did
15 you want to do something different?

16 MR. FINK: Your Honor, unless someone on my team
17 tells me otherwise, I would like to keep it on the same date,
18 keep everything together please.

19 THE COURT: Okay. Anyone on the team want to speak
20 up?

21 (No verbal response.)

22 THE COURT: All right.

23 MR. FINK: Mr. Schrock gave the thumbs up,
24 Your Honor.

25 THE COURT: Okay. Sorry, I was typing. Let me -- I

1 have the Order up. I am interlineating in paragraph 25 so
2 we'll set the hearing on the final to be January 23rd with
3 deadline of the 17th and I'm going to change -- that says,
4 "2022." We'll change that to 2023.

5 And the last one I think we said 4:00 o'clock
6 Central just so it's 5:00 o'clock on the East Coast.

7 MR. FINK: Thank you, Your Honor.

8 THE COURT: Those changes have been made. I have
9 signed the Order and it is off to docketing.

10 Mr. Fink, what's next?

11 MR. FINK: Thank you, Your Honor. The next motion
12 on task is the employee wages Motion that's at Docket No. 6.
13 Your Honor has previewed before the employees are the business
14 here, they're the lifeblood of the business. Healthy
15 employees so there's nothing to talk about.

16 So pursuant to this Motion, we're seeking to pay
17 certain prepetition obligations owed to employees, about
18 1.2 million. As discussed in the Motion, there's about 330
19 employees plus additional members of the temporary workforce.
20 We've spoken to the US Trustee. We've incorporated comments.
21 And with that, Your Honor, we respectfully request that the
22 Order be entered.

23 THE COURT: All right. Thank you.

24 Anyone else wish to be heard?

25 (No verbal response.)

1 THE COURT: All right. Again you know that I
2 believe that this is the most important motion that we hear
3 all day. I don't have any concerns at all. In a business
4 like this, I agree with the comment even more than I normally
5 do that the employees are the business. The institutional
6 knowledge that exists can't be replaced or at least not
7 easily. I don't have any concerns at all.

8 I've had a chance to review the proposed Order. I
9 have signed that Order and it is off to docketing.

10 MR. FINK: Thank you, Your Honor. Moving on to the
11 next item on the Agenda, it's the NOL Motion at Docket No. 7.
12 The Motion seeks to establish procedures to protect the
13 potential value of the Debtor's tax net operating while
14 carried forward certain other tax attributes.

15 The proposed procedures with narrowly tailored
16 restrictions and notification requirements with respect to the
17 stock -- with respect to the common stock of Core Scientific
18 and certain options or similar rights to acquire that stock.

19 Your Honor, I'm happy to -- if Your Honor has any
20 questions. I will let you know that I came armed with a --
21 with one of my tax colleagues. Mr. Stuart Goldring is in the
22 room with me in case Your Honor has any specific questions.

23 THE COURT: I don't want him to feel like he came
24 for no purpose. I mean, I can -- I'm happy to engage. I also
25 think that again this process exists to protect everyone and I

1 think the process that has been employed is rational, it's
2 balanced, it protects all parties, it gives everyone the
3 opportunity and tells everyone how you come back if you want
4 relief from the -- from proposed requested relief.

5 I do have one question because again this is one of
6 my market certainty issues and I always ask. And if you've
7 made an agreement, I'm not trying to change it, but this is
8 one of those that I believe ought to be done on a final basis
9 because you're going to send this out, people are going to
10 rely on it and if you send out an interim Order, then you run
11 the risk of people go, "Well, we're after that deadline, this
12 Order doesn't mean anything" or you start getting various
13 interpretations.

14 So unless there is some agreement that I'm not aware
15 of and maybe even if there is, I'd like to understand why we
16 shouldn't do this on a final basis.

17 MR. FINK: Your Honor, I think that works for us,
18 Your Honor. Mr. Goldring concurs with me.

19 THE COURT: I really want to ask him something now
20 that I know he'll disagree with just to give him an
21 opportunity, but I won't.

22 MR. FINK: Thank you, Your Honor.

23 THE COURT: Mr. Ruff, let me ask you: have you had
24 the opportunity to look at 7-2, Mr. Ruff?

25 MR. RUFF: I have, Your Honor.

1 THE COURT: Do you have any concerns?

2 MR. RUFF: No, Your Honor. And I think in the past
3 the way we've dealt with this: as long as parties, if they do
4 have an issue with it, if it's without prejudice for the right
5 to seek relief from the Order, no issues --

6 THE COURT: Absolutely.

7 MR. RUFF: -- of it going final just so there is
8 certainty in the process.

9 THE COURT: Absolutely. Quite frankly, the Order
10 itself says, "If you want relief from the Order, here's how
11 you go about doing it." And it's that process that I am
12 concerned with because I don't inadvertently want something of
13 value to disappear simply because -- perhaps even acting in
14 good faith. I want to make sure that we don't trip over that.
15 So anyone can come back in and say, "This Order should be
16 modified in the following way for the following reasons,"
17 we'll have a hearing and we'll just deal with that. So with
18 that, I have the proposed final Order that was filed at Docket
19 No. 7-2. I've had a chance to review it. Again I think this
20 is one of those market certainty issues.

21 Mr. Fink, if I could ask you: do you have a copy of
22 the Order available to you?

23 MR. FINK: Yes, I do, Your Honor. Let me -- yes,
24 Your Honor, right in front of me.

25 THE COURT: Okay. So what I would like: if you

1 would go to page 3 -- no, I'm sorry, it's actually page 2.
2 It's just the page numbering is off. The second page. The
3 paragraph that's above the "It is ordered," that page.

4 MR. FINK: Yes.

5 THE COURT: If you would go to the line that begins
6 "Notice need be provided," and it reads --

7 MR. FINK: Yes, Your Honor.

8 THE COURT: -- "And the Court having reviewed the
9 Motion, the Court having held," I'd like to strike the word
10 "interim" so it just says, "The Court having held a hearing on
11 the Motion."

12 MR. FINK: Yes, Your Honor.

13 THE COURT: And I would like to strike the rest of
14 that line, the entirety of the next sentence and then the --
15 and the next sentence all the way through the semicolon so it
16 would read now that "The Court having held a hearing on the
17 Motion and all objections (indiscernible) to the Motion been
18 withdrawn, resolved or overruled," and then it continues on
19 and in my mind reflects what we have done today.

20 Do you have any concerns or objections?

21 MR. FINK: Thank you, Your Honor, that works for us.
22 Thank you.

23 THE COURT: Thank you. And with that, I have signed
24 the Order as modified on the Record. I do think that the
25 notices and the attachments all again are easy to read or

1 easily understandable. They accomplish the task in a very
2 balanced, evenhanded way. I have signed that Order and it is
3 off to docketing.

4 Mr. Fink, what's next?

5 MR. FINK: Thank you, Your Honor. Next is
6 utilities. That's at Docket No. 8. Your Honor, I just wanted
7 to raise just two points about this. In case Your Honor was
8 wondering or noticed this, the utility numbers in this Motion
9 are probably a bit higher than what Your Honor's accustomed to
10 seeing and that's due to what Mr. Schrock talked about before.
11 The amount of power necessary to run this business are large,
12 enormous. So in order to run the data centers and the miners,
13 power is needed.

14 And the second point I just wanted to flag for
15 Your Honor is that unlike a, I guess, traditional utilities
16 motion where we talk about the -- only deposit, a number of
17 the company's utilities are on prepayment terms already prior
18 to the petition date and we're just seeking as adequate
19 assurance to continue that arrangement post-petition.

20 If you look at the -- if Your Honor looks at the
21 chart at the end of the Motion, the schedule, some will be
22 prepaid, some will get the deposit and the deposit as set
23 forth in the Motion will be about \$6.75 million.

24 So other than that, Your Honor, we respectfully
25 request that Your Honor enter the Order.

1 And with respect to these hearings, if my math is
2 correct, I think the 23rd is 30 days out from today so if
3 that's the case, Your Honor, I would just propose to do the
4 utilities hearing at that same hearing as well. I know
5 Your Honor's busy that day so if Your Honor wants to do that
6 another day, that's fine too but --

7 THE COURT: All makes perfect sense to me. Let me
8 ask first before I respond to the things you said.

9 Anyone else have a concern about this?

10 Mr. Ruff?

11 MR. RUFF: No concerns. We were able to preview the
12 Motion and work through any comments that we had, Your Honor.
13 And we're aware of the Debtor's need (indiscernible) in this
14 market and so no opposition to the Order proposed.

15 THE COURT: All right. Thank you.

16 Then, Mr. Fink, number one, I greatly appreciate
17 your pointing out the differences. This is -- and I got it.
18 This is one quite honestly I expect -- it isn't going to
19 surprise me because we never see utilities pop in on these,
20 but if there was ever going to be a case in which they would,
21 this may be the one.

22 And again I think having the process as a place
23 where people can say, "Well, at least here's where we are,"
24 and they can make a business decision as to whether or not
25 they want to look for something different makes just perfect

1 sense to me. The size of the deposit doesn't bother me at
2 all. I understand the nature of the business and what drives
3 the business.

4 And I think the process again satisfies the
5 requirements of 366. I think it's balanced and I think it
6 gives parties access to the Court in an expedited fashion if
7 they disagree with the Debtor's proposal.

8 So I have taken the Order that was attached at
9 No. 8. I have modified paragraph 5, which is your hearing
10 time, to reflect January 23rd at 12:00 noon.

11 And with that unless, Mr. Fink, you tell me there's
12 something else that I've missed, then I'm prepared to sign
13 that.

14 MR. FINK: Thank you, Your Honor. I just note that
15 Your Honor's point -- we have actually already started
16 receiving inbounds from the utilities and we're talking to
17 them already so the process has kicked off as far as we're
18 concerned.

19 THE COURT: Great. Then this will just work like
20 it's supposed to.

21 The Motion -- the Order's been signed and it's on
22 its way to docketing.

23 MR. FINK: Thank you, Your Honor. So I think the
24 last one for me is at Docket No. -- is at ECF No. 9. It's the
25 Motion to file a consolidated creditor matrix, consolidated

1 top 30 and relief with respect to redactions of employee info
2 -- of employee information and relief with respect to list of
3 equity holders, Your Honor.

4 Unless Your Honor has any questions, we respectfully
5 request that the Order be entered.

6 Your Honor, just on the equity holders piece,
7 obviously it's a publically-traded company with a lot of
8 equity holders. We think that the relief is appropriate on
9 that front.

10 THE COURT: All right. Thank you.

11 Anyone else wish to be heard?

12 (No verbal response.)

13 THE COURT: All right. Then, Mr. Fink, again I know
14 I'm in the minority, but I'm a believer that we should do more
15 to protect the names, addresses. And while not maybe personal
16 identifiable information under the statute, it is certainly
17 close enough. You just look at events and people who show up
18 at people's houses and targets that occur and scam attempts
19 that go on, I'm of the belief that we should do more to
20 protect that information.

21 There are no objections to what's been requested
22 here and I'm not -- again not trying to change where we are.
23 I'm just telling the world that I think we all need to be more
24 sensitive to that issue and do more to protect folks.

25 I have -- I will grant the Motion. I've signed the

1 Order. Again that's the Order that was attached to the Motion
2 at Docket No. 9.

3 Mr. Fink, what else?

4 MR. FINK: So, Your Honor, just quickly the last two
5 items on the Agenda is Item No. 13. That's the Stretto
6 retention. Your Honor, thank you very much. We saw that the
7 Order on that had been entered.

8 And then the notice of designation as well as 14
9 rounds out the Agenda.

10 So unless -- I would turn it back to Mr. Schrock for
11 any closing remarks unless Your Honor has any questions for
12 me.

13 THE COURT: Mr. Fink, as always, I appreciate your
14 diligence and preparation, quite frankly, the whole team
15 pretty impressive today. I was so awed by the presentations
16 and the professionalism that I didn't decide who to pick on.
17 So the team should get a collective attaboy. And have a good
18 holiday.

19 MR. FINK: Thank you, Your Honor.

20 THE COURT: Thank you.

21 MR. FINK: Thank you.

22 THE COURT: Mr. Schrock?

23 MR. SCHROCK: Nothing else here, Your Honor. Thanks
24 very much.

25 THE COURT: All right. Thank you. So again to

1 everyone, I know that there are issues that need to be dealt
2 with. I'll reiterate again I am here ready to begin
3 addressing those issues as soon as you're ready to sign your
4 name to a pleading. So I don't want you to think that I shy
5 away from anything or that I want people to settle things. I
6 genuinely don't care. I'm here to resolve disputes and so
7 when you are ready to do that and you'll put your name on a
8 pleading, I'm ready to resolve it. And I understand the
9 importance of this and I'll do my best to clear my Docket to
10 accommodate all of the parties.

11 And with that, I'm still looking for a DIP Order.

12 And, Mr. Ferris, you popped on.

13 Did you have -- have you had a chance to look at it?
14 Did you have a concern? Do we need to talk or where are we?

15 MR. FERRIS: So, Your Honor, before we close, I did
16 just want to make the Court aware. And again we've heard your
17 comments and I fully expect the parties to continue to work
18 toward resolving the issues, but we have not actually yet seen
19 the schedule in the Record, schedule M.2.2 so that's still an
20 open issue.

21 And candidly the way the -- the current definition
22 of the "prepetition equipment lenders collateral" is still, we
23 believe, overly narrow so we still do have an unresolved issue
24 on the way, which is going to be an Order to clarify that
25 there is no timing of the equipment lenders rights.

1 THE COURT: Got it. Could I ask an accommodation
2 from you, Mr. Ferris, is that I assumed that --

3 MR. FERRIS: Absolutely.

4 THE COURT: I'm assuming that there are things you
5 haven't yet seen that are being floated and client approvals
6 and all the things that are required to occur. If it turns
7 out that you have a problem -- and you can pick your deadline
8 -- if you would just communicate with Mr. Alonzo that says,
9 "Hey, we need a further hearing this afternoon, we need a
10 hearing tomorrow morning or we've reached an agreement" just
11 so I don't worried about it? If you would just send that
12 email? Obviously copy all the other folks who are involved.
13 I would greatly appreciate that. So could I ask you to do
14 that as you see whatever it is you're going to receive?

15 MR. FERRIS: Of course. And again we will continue
16 to work doing all this consensually and hopefully we won't
17 have to let you know that we need additional time.

18 THE COURT: Yeah. Mr. Schrock's got to go change
19 the thermal paper in the fax machine.

20 (Laughter.)

21 MR. SCHROCK: Yes, we'll do that, Your Honor. And
22 I'm confident that we'll work out the language. I should have
23 mentioned that we're going to get that around the current
24 issues. We'll let you know, but I'm confident we're not
25 priming the equipment lenders' liens so we'll make sure that

1 that's handled.

2 THE COURT: No, I got it. There are a lot of things
3 going on. I appreciate everyone's again attention, the prep
4 and the fact that I -- you all just do a fabulous job amongst
5 yourselves.

6 Whatever your particular event whether it be
7 Festivus or something else, I wish you all a very happy
8 holiday. We'll be adjourned.

9 (Hearing adjourned at 11:34 a.m.)

10 * * * * *

11 *I certify that the foregoing is a correct transcript*
12 *to the best of my ability produced from the electronic sound*
13 *recording of the Zoom/telephonic proceedings in the*
14 *above-entitled matter.*

15 /S./ MARY D. HENRY

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